EOs FOR CLINTON

WHY COMPANIES TRIMMED R&D

BusinessWeek

LY 3, 1995 A PUBLICATION OF THE McGRAW-HILL COMPANIES $2.95

Managing Retirement Plans

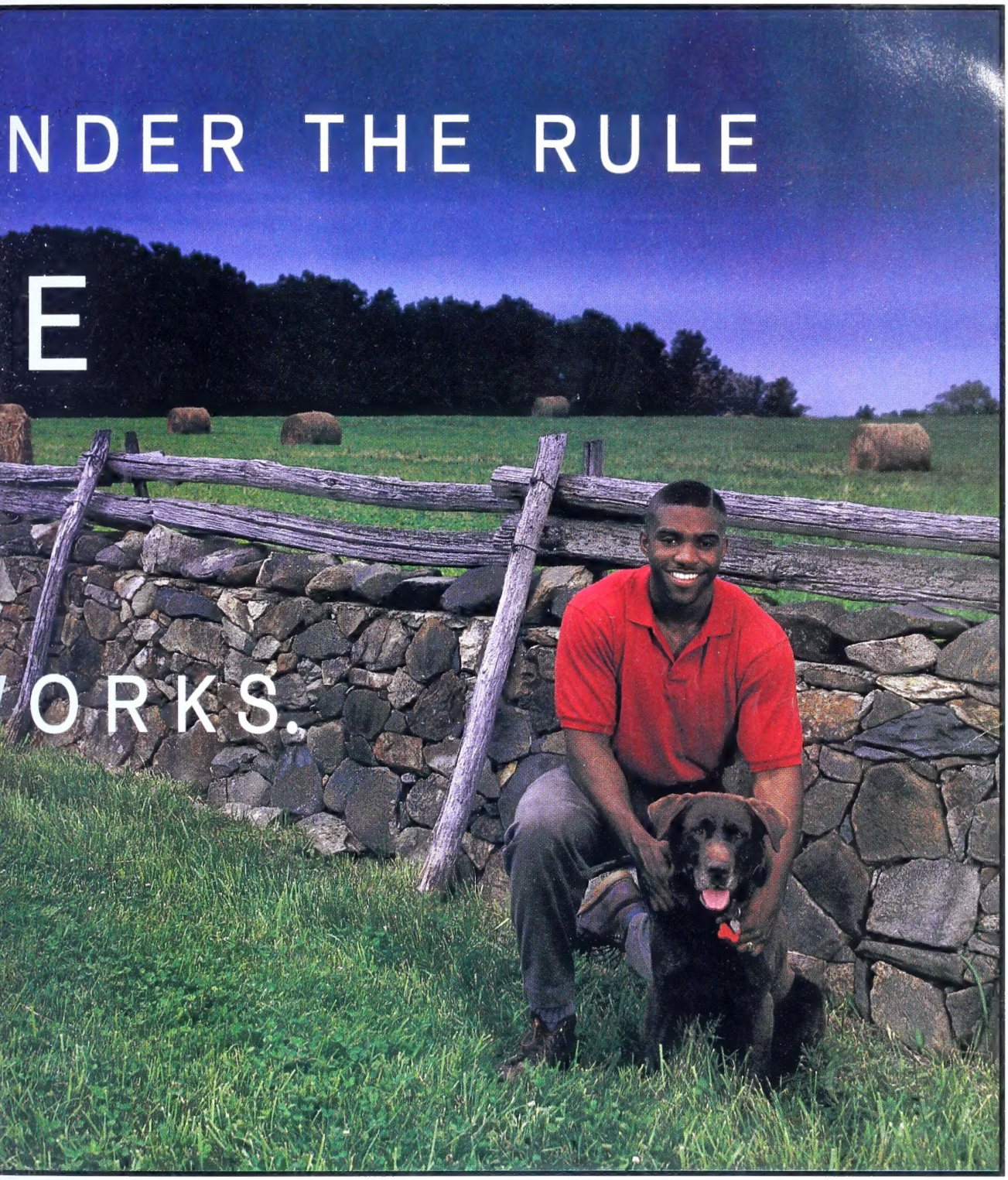
THE SMART 401(k)

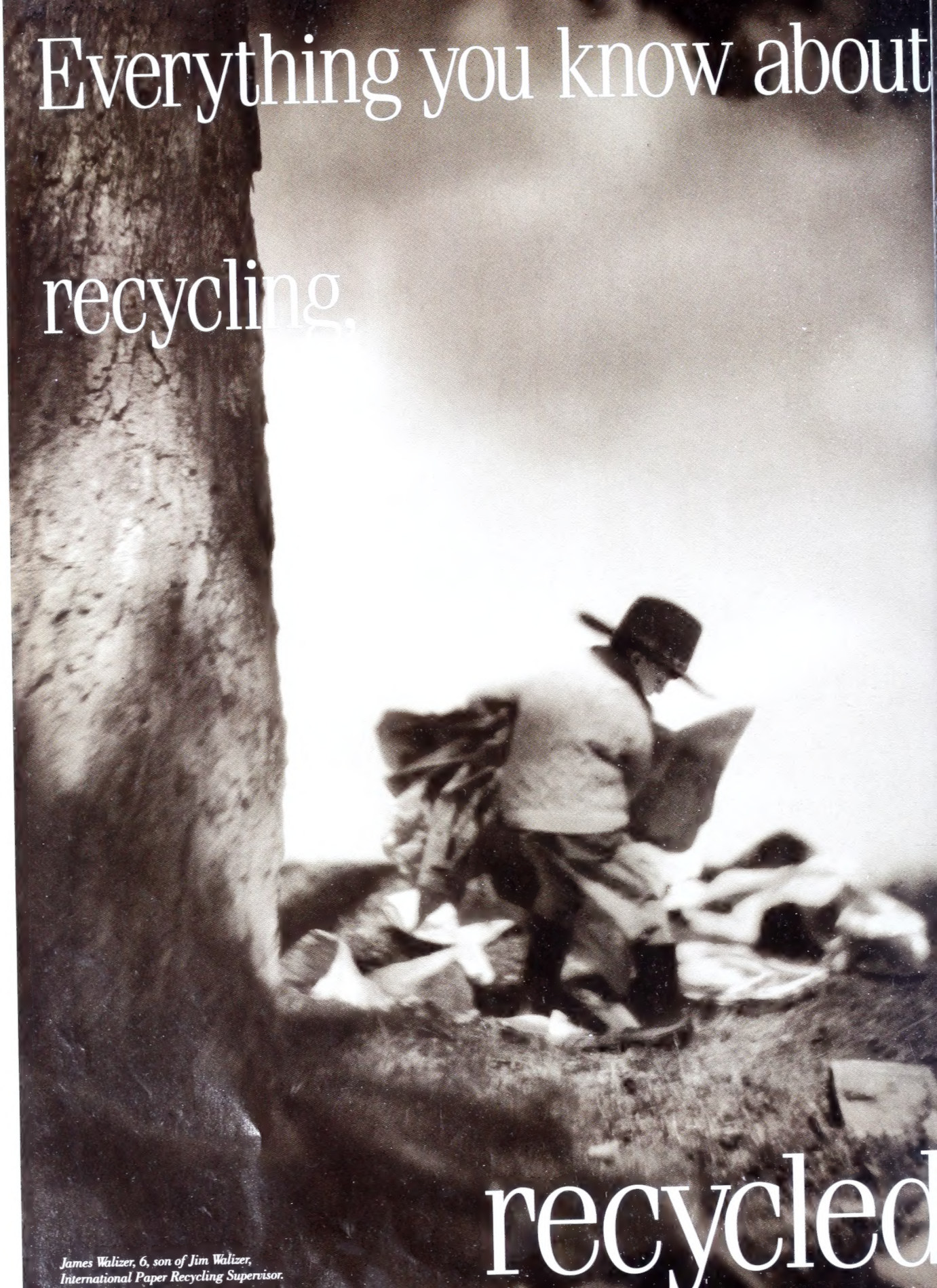
Are you amazed by technology? Probably not.

Which is why we offer dependable products that make people's lives easier.

Does that work for you?

Karl L. Brunson presents ideas in California from a phone [illegible] Virginia.
Which he finds much easier than hopping on planes all of the time.





James Walizer, 6, son of Jim Walizer, International Paper Recycling Supervisor.

HAT ARE THE ISSUES?

The average person's knowledge out recycling probably begins d ends with where to deposit ed paper so it gets recycled. me may also have a vague tion that all used paper travels a recycling plant somewhere. be turned into new paper.

That's not the whole story.

America has made great gress in recycling. We're recov- ng over 40% of the paper we e, making the U.S. one of the st recyclers in the world. Soon expect to reach 50%, which is erally regarded to be near the etical limit because about half paper we use isn't recoverable. r instance, a lot gets stored in form of books and documents. l some also gets contaminated ond recovery.

So the issue now isn't whether recycle, but how best to use overed paper.

One thought: make all new er out of 100% recycled paper. alistic but not very practical. ay? First is the enormous nand (over 88 million tons per ar) for paper in our country. is can't be met with recovered terial alone, no matter how d we get at recycling.

Secondly, when paper is recy l, its fiber weakens, ultimately king it unusable.

Lastly, sometimes recovered er isn't of high enough quality make better grades of paper. So recycled material must be com- ed with different amounts of rgin" fiber (raw material ived from harvested trees).

Where does all this leave us? king a balance between the nand for paper products uiring virgin fiber, and the best of using recovered paper.

WHAT WE ARE DOING.

International Paper currently makes over 100 types of recycled paper products. With our Springhill Incentive and Hammermill Unity papers, we are also the first and only North American company to make 100% recycled business papers entirely from old newspapers and magazines.

We're also installing the world's largest, most efficient machines to make business and packaging papers containing recovered fiber. This, in turn, will further increase our total intake of recovered paper.

We meet the need for virgin fiber through a practice called "sustainable forestry," which includes planting 50 million SuperTree™ seedlings every year. SuperTrees, developed through a process of natural selection, produce 30% more wood per acre over a 25-year growing period. This ensures that we can harvest fewer acres and still satisfy the demand for high-quality paper.

WHAT IT MEANS TO YOU.

This year, through the combined efforts of people like you and companies like International Paper, more paper will go to recycling plants than to landfills. You can also rest assured that our forestlands will be around for posterity.

Finally, if you've read this far, it's obvious that you'd like to see more progress in recycling. To talk more, call Steve Van Voorhis, Manager of Recycling Programs, at 1-800-831-8354.

INTERNATIONAL PAPER

We answer to the world.

Cover Story

58 THE SMART 401(k)
For 15 years, this retirement program has been misunderstood and underused Now, companies are mounting a crusade to recast their plans and improve awareness and participation. Why? Top execs are in big trouble otherwise

62 A BOOST FOR THRIFT
401(k)s should be a shot in the arm for America's drooping savings rate

63 MORE GOLD FOR YOUR GOLDEN YEARS
Start young, salt away the maximum, pick equities, and tolerate some risk

News: Analysis & Commentary

26 A HARD SELL CALLED CLINTON
Getting business leaders on the President's reelection bandwagon will not be easy

28 BILL'S DAVE PROBLEM
Clinton crony David Watkins has the Prez in hot water again

29 COMMENTARY
The budget: How to whack $10 billion in corporate welfare

30 THE DROUGHT DRAINING L.A.
Its coffers are dry, with little relief in sight from state or federal sources. Major cutbacks may be ahead

31 OPEN SEASON ON NONPROFITS
Their tax-free commercial revenue is provoking a backlash from critics and new federal scrutiny

32 GM LEARNS TO LOVE AN OUTSIDER
GM marketing boss Ron Zarrella, wooed from Bausch & Lomb, quiets skeptics who thought he couldn't cut the culture

33 A MEA CULPA—AND A COMEBACK?
Caremark's guilty plea to paying kickbacks for physician referrals leaves the company free to follow a new path

33 LEANER' ISN'T ALWAYS MEANER
Banks that cut costs are still vulnerable to takeovers by those that invest in new products and better service

36 SONY'S MICHAEL JACKSON THRILLER
It places a $40 million bet on the return of The Gloved One

38 IN BUSINESS THIS WEEK
Norman Lear, Rainforest Cafe, Warner Music, Robert Brennan, John Pomerantz, P&G, Banco Latino

International Business

40 EUROPE
As American-style executive pay packages take hold, workers, politi and even other bosses are offende

42 LONDON
In financial services, all roads are leading to the City

43 JAPAN
Want to sell autos in Japan? Do as Germans do

46 INTERNATIONAL OUTLOOK
As Yeltsin totters, Chernomyrdin standing tall

Economic Analysis

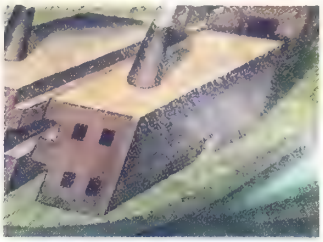
20 ECONOMIC VIEWPOINT
Dornbusch: Sanctions against Japa a necessary evil

22 ECONOMIC TRENDS
Export trouble ahead, the perils o global diversification, jobless numb when to start college

23 BUSINESS OUTLOOK
The economic slowdown: The wor already be over

HARD SELL
Getting business leaders behind Bill Clinton's reelection bid will take some smooth talking page 26

HOT CITY
London's financial district is really cooking page 42

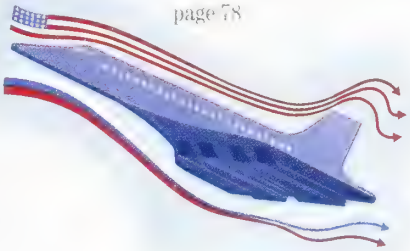


TAKEOVER TREND
Merger plays that won't burn your fingers page 88

OVER STORY

RT 401(k)s
companies are
g to recast their
on plans, what
itutes a good
k), and
egies for a
ng the most out
ur plan page 58

DOWN TO EARTH
In R&D, blue-sky research is out, and a focus on customer needs is in
page 78



CORDLESS WONDER
Japan's handyphone may take the minicellular lead
page 82

heiffele, 34
ainment

Government

VASHINGTON OUTLOOK
'he Commerce Dept. has a choice: Reinvent or die"

THINK TANK THAT THINKS NEWT
ompanies are eager to donate to the rogress & Freedom Foundation

'he Corporation

ACK TO COFFEE, TEA, OR MILK?
ontinental's simple comeback plan: etter service and on-time flights

LOWSHARES INTO PLIMSOLLS
efense contractor Iverson tries to egain its footing—with sneakers

Iedia

HAT IF ROGER AILES LEAVES CNBC?
ed Turner has to be fended off—and e turnaround kept on track

inance

TAKEOVER BATTLE ROYAL
a bid that goes way beyond hostile, tailer Carson's won't stop pursuing unkers, and it "looks very ugly"

73 THE MERC LOSES SOME LUSTER
It's losing foreign-currency business to the much larger interbank market

76 INSIDE WALL STREET
ThermoTrex: Way past hair-removal
Attention, Kmart shoppers
An insurer you can bank on?

97 INVESTMENT FIGURES OF THE WEEK

Science & Technology

78 BACK TO BASICS
With budgets lean, R&D is focusing on customers' immediate needs, and putting speculative projects on hold

81 DEVELOPMENTS TO WATCH
Nanochemistry for molecules, innovations, supercomputers turn to Archimedes, switching Net switches

Information Processing

18 TECHNOLOGY & YOU
Laptops whose small keyboard and display expand for the desktop

82 THE BEEP HEARD 'ROUND THE WORLD?
Japan's minicellular phone aims to conquer Asia first, though a slew of foreign rivals could yet derail it

84 IT'S ALL IN THE PACKAGING
Panda's new PC modules are impressive —and so is its chutzpah

The Workplace

87 CAN NEW LEADERSHIP REVIVE LABOR?
Both rivals for AFL-CIO chief plan to lead vigorous membership drives

Personal Business

88 INVESTING: Merger-mania plays
TELEVISION: On-screen TV guides

Features

6 UP FRONT
10 READERS REPORT
12 CORRECTIONS & CLARIFICATIONS
14 BOOKS
Asbell: *The Pill: A Biography of the Drug That Changed the World*
16 BUSINESS WEEK BEST-SELLER LIST
95 BUSINESS WEEK INDEX
96 INDEX TO COMPANIES
98 EDITORIALS
The balanced budget payoff
How to avoid the potholes in 401(k)s
Nonprofits' fat profits

Up Front

EDITED BY LARRY LIGHT, WITH OLUWABUNMI SHABI

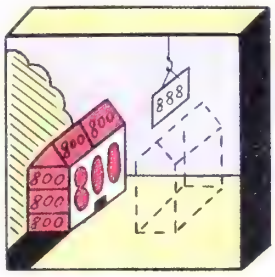
TALK SHOW "If I say something which you understand fully in this regard, I probably made a mistake."

—Chairman Alan Greenspan, "explaining" to Congress the Fed's criteria for lowering rates

SUPPLY AND DEMAND

800 NUMBERS: GET 'EM WHILE YOU CAN

TOLL-FREE 800 NUMBERS ARE just about used up. Experts say the supply of unused numbers may run out by yearend, if not before. Worse, its successor, 888, likely will not be ready until April next year, which will possibly leave a gap of several months. Corporate America is "very, very concerned," says attorney Colleen Bothby, who represents such big 800 users as General Electric and Bank of America.



The Federal Communications Commission figured that the supply would last until the new 888 exchange kicked in. But a surge in demand for the 800 exchange, partly due to the popularity of personal 800 numbers—such as those acquired for college kids' use—is depleting the 7.6 million possible 800 combinations. Fewer than 600,000 are left, says the FCC.

Responding to what it calls an "emergency," the FCC recently ordered the remaining numbers rationed. If that doesn't work, the FCC may take back some unused 800 numbers. Main target: phone companies stockpiling them against a shortage.

Even if the FCC solves the shortage problem, which appears unlikely, the transition to 888 won't be easy. Many companies with well-known 800 numbers—American Express, for instance, which has 1-800-THE-CARD—are worried someone could grab the corresponding number on the 888 exchange. So the FCC may solve that by just eliminating these popular numbers from 888. A final decision from the feds is expected later this year. *Mark Lewyn*

COMPUTER MONITOR

INTEL INSIDE —FOR NOW

TRUCE: *The mother of all motherboard battles abates*

COMPAQ AND INTEL, WHICH have spent a year battling have called a truce. Compaq Computer , the nation's No. 1 PC maker, is turning to chip king Intel for motherboards the guts of computers. Intel Senior Vice-President Paul Otellini calls this a "gradual thaw" between the twosome.

A few years ago, there was little friction between the two companies. But then Intel started branching out into motherboards and launched its own branding program called "Intel Inside." This outraged Compaq, which makes its own boards and wanted to preserve its brand name. Rivals Gateway and Packard Bell snapped up the ready-made Intel boards and pumped out product so quickly they outflanked Compaq and enjoyed strong sales.

Industry experts call it a marriage of convenience. Says Dataquest analyst Robert Corpuz: "We'll continue to see peaks and valleys in this relationship." Compaq hasn't announced how many Intel motherboards it will use. In fact, Compaq says it will keep making its own motherboards for most lines—and will use rival chips from Advanced Micro Devices and NexGen. Compaq has no plans to rejoin the "Intel Inside" program, which it quit in early 1995. *Robert D. Hof*

SLUGFESTS

TOM PETERS REFIGHTS VIETNAM

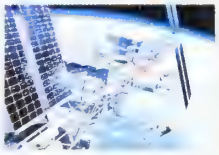
FORMER DEFENSE SECRETARY Robert McNamara's book on Vietnam, *In Retrospect*, has created a ruckus at Stanford B-school. After Stanford Professor Alain Enthoven penned a defense of McNamara in *The New York Times*, management guru and Stanford alum Tom Peters shot off a scathing letter on Enthoven to the MBA newspaper. In it, Peters suggested that Enthoven didn't belong on Stanford's faculty and that McNamara's presence on the school's advisory board until two years ago was "a disgrace."

GURU: *Also a vet*

Peters says he just "lost it" when he read that Enthoven, a McNamara Pentagon aide, believed the war required more analysis. Peters, who served two Vietnam tours, charged that McNamara's "grotesque over-reliance on sterile analytic methods and his blindness to the real, human drama of war and politics was his—and our—undoing." Not so, retorted Enthoven. "Peters is completely off target in characterizing the Vietnam War as 'the most overanalyzed military affair in U. S. history.' It wasn't analyzed at all." The flap has prompted a flurry of letters—both pro and con—in *The Reporter*, Stanford's MBA student newspaper. *John Byrne*

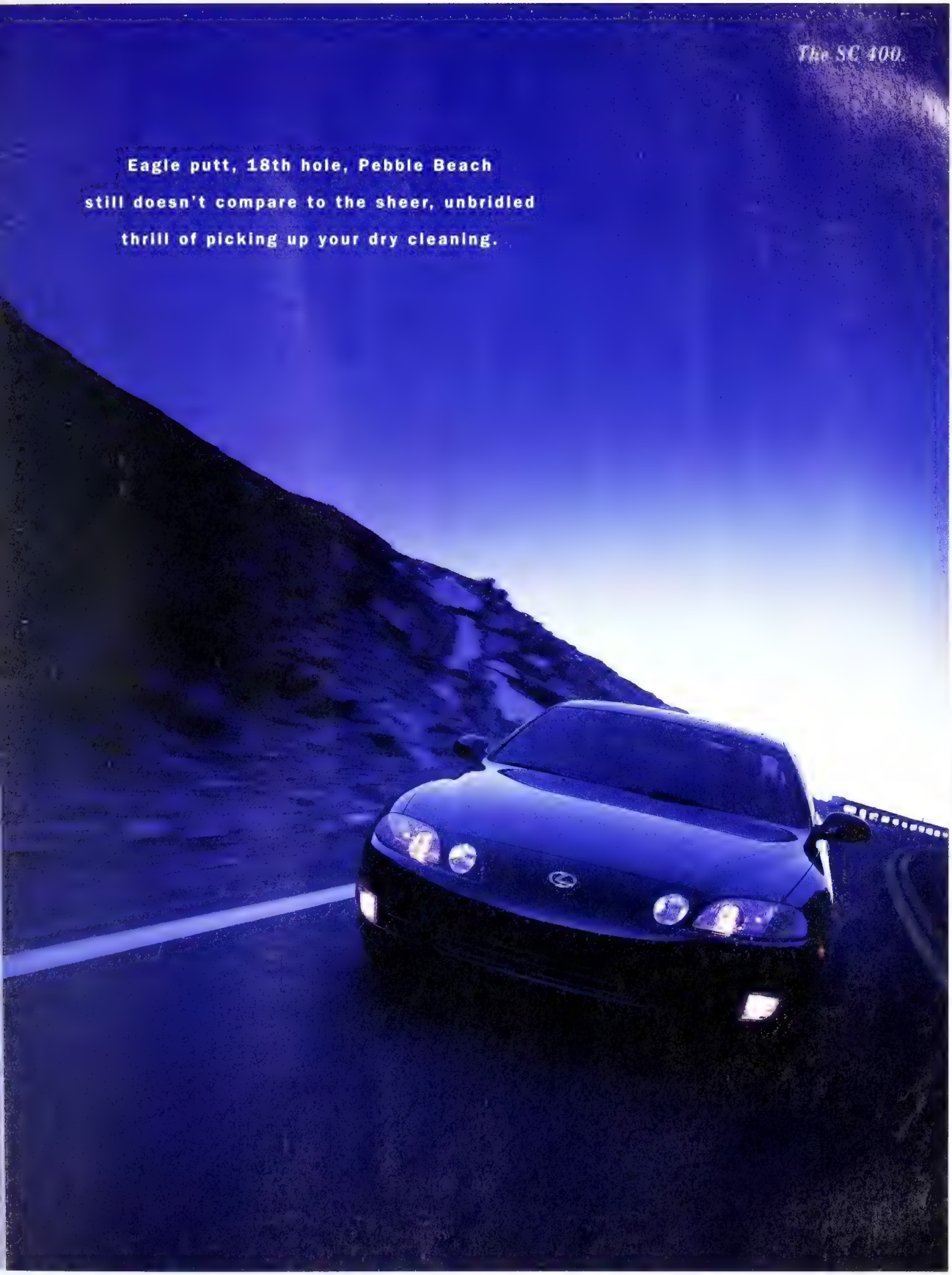
REALITY CHECK

THE SPACE STATION will be a boon to medicine if you believe the current rationale. Scrambling to fund the controversial $27 billion project, backers in Congress say astronauts working in near-weightlessness may be able to find cures for everything from diabetes to osteoporosis. Says Representative Ralph Hall (D-Tex.): "For people languishing in cancer wards, it's their only hope."



DREAM MACHINE

IN REALITY, the space station has a better chance of finding Klingons than finding cures. True, research in orbit is needed to discover ways of preventing astronauts from losing bone and becoming nauseated—a prerequisite for a journey to Mars. But the $2 billion-plus spent yearly on the station would pay for thousands of grants to earth-bound biomedical research projects, whose chances of success are much greater and much more cost-effective. Any station-based research in materials science or astronomy could be done far more cheaply and effectively by small spacecraft. *John Carey*



With the 250-hp Lexus SC 400 you can cover a 440-yard par-four (precisely a quarter mile) in about 15.3 conds.* Just watch out for water hazards. For the name of the dealer nearest you, please call 800-USA-LEXUS.

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Up Front

THE FEDS

AN EMBARRASSMENT OF LEAKS AT THE FCC

HUNDT: *So much for his antileak memo*

COMMUNICATIONS SEEM TO BE a big problem at the Federal Communications Commission, especially for Chairman Reed Hundt. He's embroiled in a public tiff over news leaks from the FCC recently while it was probing charges that Australian-born Rupert Murdoch's Fox Broadcasting unit violated foreign-ownership restrictions on U. S. networks.

The FCC's decision to let off the conservative Murdoch, whose *New York Post* often lambastes Hundt-patron Clinton, is viewed around Washington as a defeat for Hundt, who was said to privately favor sanctions.

Hundt wrote an internal memo calling such reports "wildly inaccurate" and condemning the leaks. A key target of his wrath, say aides: Commissioner James Quello, a 21-year FCC vet and its acting chairman until Hundt took over. Loose lips may have been O. K. "under the old regime," Hundt wrote, "but it's time for a change." Then this memo got leaked.

Quello, who chafes at what he sees as Hundt's abrasiveness, admits that he has been a leaker, but claims the chairman's office is often a worse offender. Hundt aides say the FCC's private deliberations shouldn't be splayed in public but that the chairman and Quello are trying to make peace. *Mark Lewyn*

GUN LOBBY

LONE STAR HUNTERS TELL THE NRA TO GIT

THE NRA IS *PERSONA NON grata* at, of all places, hunters' conventions in Texas. Organizers of the three Texas-Mexico Hunting & Fishing Expos, to be held in the Lone Star State later this summer, have barred the gun lobby from setting up booths at their events. George Bush is another Texan who also spurned the National Rifle Assn. recently, resigning his membership.

Reason: distaste over the NRA's superheated pro-gun talk. The hunters were riled by an NRA fund-raising letter referring to government agents as "jack-booted thugs." Says expo director Jerry Curl: "The sportsmen and women who attend our shows don't appreciate the radical rhetoric." He says he based his decision on a poll he did of his major exhibitors.

For the past three years, the NRA has been a fixture at the Texas expos, where hunters browse among rifles, deer blinds, and duck calls. The NRA wouldn't comment, but a spokesman says it is looking forward to conclaves elsewhere. *Kate Murphy*

DRAWN & QUARTERED

NEW WORLD ORDER

ZHIRINOVSKY: FIRST VENOM, NOW VODKA

PRESIDENTIAL HOPEFULS IN the U. S. use buttons and bumper stickers. In Russia, maverick pol Vladimir Zhirinovsky is peddling his own name-brand vodka as a campaign gimmick. A member of Parliament best known for his vitriolic nationalistic views (example: reclaim Alaska), Zhirinovsky struck a deal with a distillery in Ryazan to churn out 70,000 bottles monthly of Russia's favorite spirit. The vodka, sold in kiosks throughout Moscow, has a label bearing his stern visage.

He needs something to galvanize his troubled bid to unseat President Boris Yeltsin, a noted vodka consumer. Zhirinovsky, whose poll ratings are down lately, plans a campaign swing along the Volga River in July, promising everyone access to good, cheap vodka.

Well, cheap this hooch isn't. A bottle sells for 18,000 rubles (about $4), triple the price of rivals. Result: Zhirinovsky vodka isn't selling well, say many kiosk vendors. Nikolai Lemeshov, a Zhirinovsky aide, says the steep price is needed to cover costs—and that the candidate isn't in it for the money. But Vera Pavlova, the Ryazan distillery's deputy director, says each bottle costs 3,000 rubles to produce, leaving him a healthy profit. *Joanne Levine*

THE BIG PICTURE

OFFICE RENT: GOING UP

Here's one more sign that the office-market slump is mending. Rents, after plunging in the early 1990s, are rising again in most major cities. But with the exception of Washington, rents are still below 1990 levels.

DATA: JULIEN J. STUDLEY INC.

CHANGE IN EFFECTIVE RENTS, 1994*

GREATEST	
CHICAGO	22.15%
DOWNTOWN LOS ANGELES	16.45
ATLANTA	14.51
LEAST	
HOUSTON	0.96%
PHILADELPHIA	-1.85
BALTIMORE	-3.95

*EFFECTIVE RENTS: RENT PLUS OPERATING EXPENSES

FOOTNOTES Employment drop for 500 largest U. S. industrial companies, 1984-94: 18.3%; real revenue increase: 8.9%

WHAT DOES IT TAKE TO BECOME A WORLD LEADER IN JUST 25 YEARS?

Airbus Industrie started just 25 years ago with nothing but a seemingly impossible dream – to counter the dominance of the firmly entrenched giant aircraft makers. From that standing start the company can now boast $9 *billion* annual revenues, thousands of employees and over 30% of the market share for large commercial aircraft. From the very beginning we had to fight great scepticism and overcome many obstacles.

Most importantly, we had to win customers' confidence in spite of having no product line or track record.

That impossible dream has become reality. The clean sheet we started with has let us set new standards in every area. New standards of international cooperation, organization, and meeting market demands. New standards of design, innovation, materials, testing, manufacture, reliability, safety and customer service.

The result is that Airbus Industrie is now right at the top of the aircraft makers' league, satisfying the needs of virtually all of the world's major airlines. For the competition, the disturbing problem is that they know this is just the beginning. Airbus Industrie will never rest on its laurels.

AIRBUS INDUSTRIE
SETTING THE STANDARDS

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Readers Report

THE FUTURE OF E-CASH

Kudos to Kelley Holland and Amy Cortese for a very informative article ("The future of money," Cover Story, June 12). The banking industry and the Clinton Administration had better get moving, or this wave will pass them by, and they'll lose any chance of controlling the E-cash market. The revolution has already begun.

Erin Palmeter
San Diego

I was surprised that your reporters neglected to mention the similarity between E-cash and early forms of printed money. There was a time when every U.S. bank printed its own banknotes. The problems are obvious: Banks (and sometimes the merchants) would not accept competing banks' notes. And if a bank closed, the paper was suddenly worthless. Because of these issues, I believe it will be only a matter of time before the government severely regulates the creation of electronic money.

Chuck Hessel
New York

THE WTO IS NO SINKING SHIP

As co-author of *World Trade Without Barriers: The World Trade Organization and Dispute Resolution*, I proclaim my strongest disagreement with Robert Kuttner's economic view of the WTO, as set forth in his article "You could drive a Lexus through the holes in the WTO" (Economic Viewpoint, June 12). I am an international lawyer who has advised major law firms and corporations on international trade and investment treaties for more than four decades. I find no support in fact or in law for the conclusions presented that the WTO is too weak to open markets yet strong enough to sink serious efforts to solve trade inequities as contended. Thanks to U.S. Trade Representative Mickey Kantor and the Clinton team, the WTO, as it stands, provides a very workable legal basis for establishing more free movement of international goods and services and protection for intellectual-property rights.

Frank W. Swacker
Largo, Fla.

SAVED—OR ENSLAVED—BY A FLAT TAX?

If politicians, and the Republicans in particular, really want to have less federal government in our lives, as they say they do, then a pure flat tax is the only answer ("Tax reform is coming, sure But what kind?" Government, June 12). A flat tax on the gross income of all businesses and individuals, with no deductions or credits, would free all to make decisions on spending, saving, and investing as they see fit Without the false incentives that are written in our current tax codes Americans would be free to set their own course for their economic futures. Currently, financial decisions are made in the pursuit of tax loopholes instead of the pursuit of the "American dream."

Walter C. Nichols
Indianapolis

The article makes an inane defense of the attempts of the well-to-do to impose a federal consumption tax and/or a flat income tax on America. Adam Smith rightfully attacked taxes on the necessities of life as the most destructive of all taxes, and the American Revolution was fought mainly to free us of the consumption tax imposed by George III. Countries that rely on consumption taxes, such as banana republics, Brit

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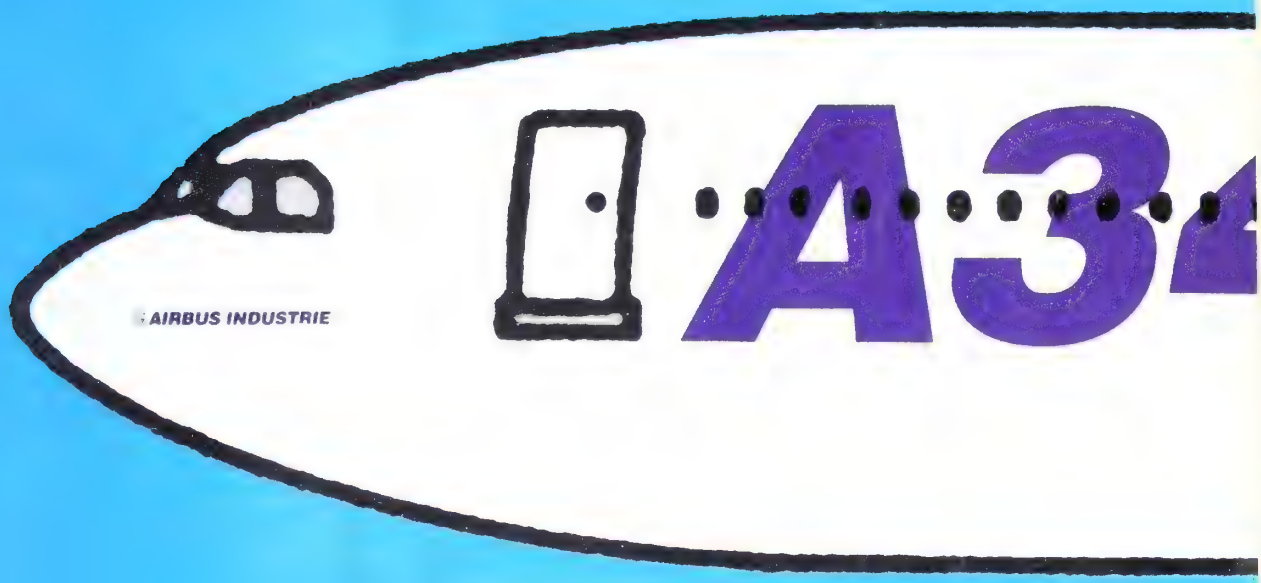
A NOSE FOR MARKET OPPORTUNITIES.



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AIRBUS INDUSTRIE
SETTING THE STANDARDS

Readers Report

CORRECTIONS & CLARIFICATIONS

In "Japan is dialing 1 800 BUYAMERICA" (Marketing, June 12), a table listed Eddie Bauer as publishing an English-language catalog with a Japanese insert. In fact, Bauer publishes a full Japanese-language catalog.

ain, France, Italy, Russia, etc., have much higher unemployment rates than the U.S. and much lower standards of living.

It should be plain even to a politician that consumption taxes not only weigh heaviest on the poor but also cripple sales and consequently cripple production and investment more than any other taxes.

Stanley M. Sapiro
Malibu, Calif.

A COST IS NOT EXACTLY A FEE

"The 'exit fee' for Sallie Mae" (In Business This Week, June 12), incorrectly stated that the Senate Budget Committee report accompanying the Senate budget resolution for 1996 indicated Sallie Mae should pay a $535 million "exit fee" to become privatized. In actuality, that figure reflects the amount of federal revenues that must be replaced, for budget-scoring purposes, if Sallie Mae is privatized.

Gisela Vallandigham
Assistant Vice-President for Corporate Communications
Student Loan Marketing Assn.
Washington

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THE PILL
A Biography of the Drug That Changed the World
By Bernard Asbell
Random House • 411pp • $25

THE POWER OF THE PILL

For several years I've stayed at home while you had all the fun,
And every year that came by another baby come.
There's gonna be some changes made right here on nursery hill
You've set this chicken your last time 'cause now I've got the pill.
—Loretta Lynn, *The Pill* (1973)

Remember the first time you heard that ditty? I do. I remember my devoutly Catholic mother listening to the radio, making sure she heard correctly, then issuing her all-purpose response to the shock-a-minute '70s: "Oh, good Lord."

As Bernard Asbell so wonderfully captures in *The Pill: A Biography of the Drug That Changed the World*, the birth-control pill had a tendency to elicit such visceral reactions. Approved in 1960 but controversial well into the 1970s in the U.S. and in some quarters still, the pill not only fundamentally changed the lives of many women but led to a more open discussion of birth control, reproduction, and sexuality in general. The Loretta Lynn lyrics Asbell quotes represent just one reaction. From inner-city tenements to the inner sanctums of the Catholic Church, from bedrooms to boardrooms, everybody had an opinion on the synthetic hormone extracted from the Mexican yam.

Some thought easy birth control was the creation of the devil. Some considered it a godsend: finally, a cheap, simple, nonintrusive way for women to gain better control over their futures. But as Asbell's well-balanced, lively book shows, the pill "was born unplanned—at least by the scientists most widely named as its parents—and it has lived a life full of surprise."

The Pill is a smooth, thorough historical account that is neither fawning nor apologetic about the motives, actions, and considerable flaws of the pill's attending midwives. One of the pill's "mothers," Planned Parenthood founder Margaret Sanger, was the child of a frail, sickly woman whom Margaret believed had been bred to death after 11 children and 7 miscarriages. A nurse, Sanger also witnessed the grim result of back-alley abortions and spent her life pushing every political and public-relations button she could to make birth control available. But the book raises unnerving questions about Sanger's motivations: In 1950, she advocated "national sterilization for certain dysgenic types" until such time as contraception was made widely available.

Another pathbreaker, Russell E. Marker, the rebel chemist who performed some essential experiments with progesterone, is shown as a difficult, self-absorbed man whose conflicts with drug companies ultimately led him to quit chemistry. His tussles with Syntex Corp. in its early days in Mexico, when Marker claimed it stole his processes and beat up his assistants, make for lively intrigue. And that's just one of *The Pill*'s corporate soap operas involving G.D. Searle & Co., Parke-Davis, and others.

Asbell's discussion of the Catholic Church's 1963-68 debate over the pill is poignant and disturbing. The author, who acknowledges that much of this material was gleaned from Robert Blair Kaiser's book, *The Politics of Sex and Religion*, suggests that after years of thoughtful work by a special commission, which included physicians and married couples who felt the Church's ban was too hard-line, Pope Paul VI decided to follow the recommendations of an archconservative faction of cardinals. I 1968, he issued a harsh condemnation c the pill and of contraception in genera that drove many Catholics out of th church. Asbell also contends that Polis Cardinal Karol Wojtyla (the curren Pope, John Paul II) wrote "kindly about contraception around this perio but was advised to stay out of the de bate if he had political ambitions.

The author's explanation of the sc ence of reproduction and contraception i clear and insightful. Oddly, though, *Th Pill* doesn't contain much discussion c oral contraceptives' persistent reputa tion for side effects and for possibl links to cancer and blood clots—or hov those claims have affected usage in th U.S., if at all. According to the Gutt macher Institute, which tracks sexua practices in America, as recently a 1990, 28.5% of U.S. women of child bearing age were using the pill despit health concerns. Asbell's failure to ad dress these matters is serious gap that would b fatal in a less skillfully pre sented historical narrative

But the past is Asbell strong point. One birth control strategy he cites In the sixth century, som learned Greeks advise women that wearing ca testicles in a tube aroun their navels would preven conception. That myth i only slightly goofier tha one subscribed to by man modern teens: "Everybod knows you can't get preg nant the first time."

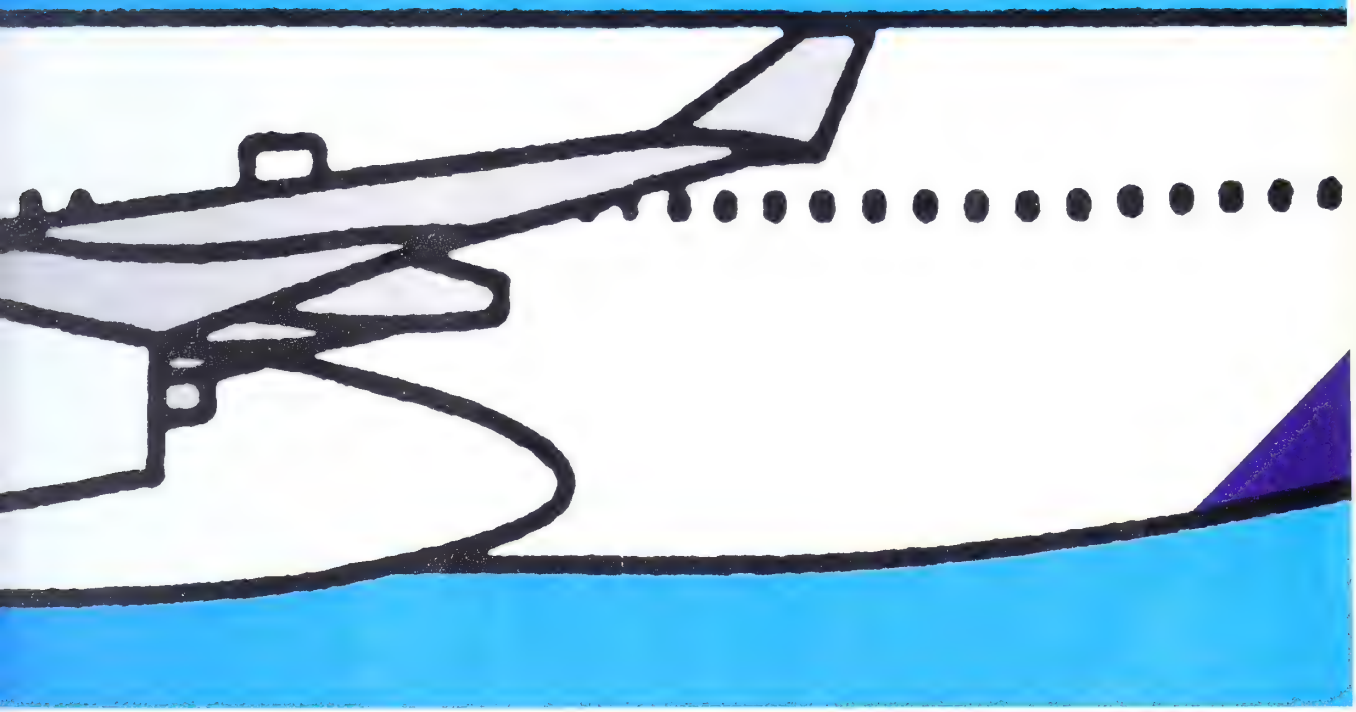
Asbell says that by one estimate, th world had 400 million fewer people i 1990 thanks to family planning, thoug from the number of unplanned preg nancies still occurring, contraceptive op tions are obviously far from perfect. As bell suggests that the controversy ove RU486, the "morning after" pill, show that even if a reliable and safe contra ceptive were developed today, it migh have trouble getting approved. The na tion's conservative tilt has a lot to d with that, but *The Pill* shows that pol tics and technology are only a part o the complex realm of human sexualit

JOAN O'C. HAMILTO

Hamilton covers biotechnology an medicine from San Francisco.

ASBELL'S LIVELY ACCOUNT FEATURES CORPORATE INTRIGUE AND RELIGIOUS POLITICKING

THE ABILITY TO CLIMB TO THE HIGHEST LEVELS.



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AIRBUS INDUSTRIE
SETTING THE STANDARDS

THE BUSINESS WEEK BEST-SELLER LIST

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2. **THE DISCIPLINE OF MARKET LEADERS** by Michael Treacy and Fred Wiersema (Addison-Wesley • $25) *Consultants diagnose what successful companies do.*
3. **THE BEARDSTOWN LADIES' COMMON-SENSE INVESTMENT GUIDE** by the Beardstown Ladies Investment Club with Leslie Whitaker. (Hyperion • $19.95) *Recipes for Four-Bean Salad, Five-Hour Stew—and 23% returns.*
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6. **THE WARREN BUFFETT WAY** by Robert G. Hagstrom Jr. (Wiley • $24.95) *A useful analysis of how Buffett does it.*
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PAPERBACK BUSINESS BOOKS

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14. **THE ONE MINUTE MANAGER** by Kenneth Blanchard PhD and Spencer Johnson M.D. (Berkley • $9.95) *Three management techniques, conveyed in brief story form.*
15. **PERSONAL FINANCE FOR DUMMIES** by Eric Tyson (IDG Books • $16.95) *Light-hearted primer.*

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HOT TYPE SUPPOSE ONE OF YOUR CLIENTS SENT you a terrific note praising your performance. Would you: A) pass along the letter to your boss with a note that says FYI, or B) tuck it away in a file you keep of similar letters, just in case you might want it in the future?

If you chose "A," congratulations. Assuming you're a woman, you're probably a "gutsy girl" and destined for career success, writes Kate White in her new book, *Why Good Girls Don't Get Ahead . . . But Gutsy Girls Do*, which weighs in at No. 11 on this month's Business Week Best-Seller List. If you picked "B," well, you had best read on.

White, editor-in-chief of *Redbook*, writes that good girls w hard, act nice to everyone—and get passed over. Gutsy gi on the other hand, do only what's essential, ask for what t want, and get rewarded.

But all you good girls out there, don't despair: Even a r goody-goody has a gutsy girl within, White says, who can unleashed by following the book's nine strategies for car success.

Other titles new to the list this month include *Megame Shakeout*, *The HP Way*, and *The Wall Street Journal Guide Planning Your Financial Future*.

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AIRBUS INDUSTRIE
SETTING THE STANDARDS

BY STEPHEN H. WILDSTROM

LAPTOPS FOR THE DESKTOP

My Hewlett-Packard Co. OmniBook 600c subnotebook isn't anyone's idea of a desktop computer. It pays for its 3.8-pound weight with a cramped keyboard and a smallish display. But when I slide it into its "extended port replicator," it instantly connects to the full-size keyboard, standard mouse, floppy and CD-ROM drives, network adapter, and 15-inch monitor that I have hooked up to the $349 docking station. And my preliminary version of Windows 95 automatically senses that the computer has been docked and can find data on a network file server and send stored jobs to a printer.

GOING BIG-TIME: *OmniBook and docking station*

DOUBLE DUTY. The appeal of using one machine on the road and in the office is obvious. But two problems stood in the way. Underpowered laptops couldn't do many desktop chores. And configuring a computer to work in both "docked" and "undocked" modes is beyond most people.

These obstacles are disappearing fast. Hardware makers are bringing out docking stations that take full advantage of Windows 95's plug-and-play capabilities, which should give Windows laptops the ease of configuration that users of the Apple Computer Inc. PowerBook Duo Dock have long enjoyed. And laptops themselves are becoming computing powerhouses.

The Texas Instruments Inc. TravelMate 5000 is a good example of the new breed. At nearly 7 pounds and with a $5,500 price tag, it puts a dent in your shoulder and your wallet. But it offers a 75-megahertz Pentium processor, hard disks up to 810 megabytes, a 10.4-inch display, and the same speedy circuitry used by desktops to handle video displays and disk drives. For desktop use, TI will offer a $350 docking unit similar to the OmniBook's.

Plenty of laptops are going Pentium now that Intel Corp. is making a version of the chip that runs cooler and gives acceptable battery life. The upcoming OmniBook 5000, which is likely to be in the TravelMate 5000's price range, will boast a 90-Mhz Pentium and a 1-gigabyte hard disk. But if these top-end machines are too rich for your budget, Compaq Computer Corp. has just announced its new Contura 400 line powered by fast 486 chips. Prices start around $2,500, and a network-ready docking module is $299.

FINE FEATURES. The increasing capability of laptops is changing the design of docking stations, too. Earlier units were elaborate devices designed to give multimedia capability to stripped-down portables. But today's laptops usually come with built-in stereo sound. Many new laptops come with a bay that can house an extra battery or a CD-ROM drive. The final touch is an inexpensive dock to give access to networks, printers, and other devices.

With Pentium desktops available for less than $2,000, laptops look pricey. But the notebook-plus-dock is still far cheaper than separate laptop and desktop machines. In fact, "a lot of corporations are telling their people that they can buy only one machine," says Robert Brown, mobile products marketing manager for AST Research Inc. AST will ship its Pentium-powered Ascentia 950N this summer at a base price of $3,500.

This is a rare case in which employers' passion to cut costs may serve the interests of workers. There are a lot of advantages to having a single machine. All your files will always be where you need them. The headache of trying to keep your calendar, contact list, and other vital data synchronized on laptop and desktop machines will disappear. And you won't have to install all your software twice. For people who divide their computing time between home, office, and the road, the new generation of laptops could be real labor savers.

BULLETIN BOARD

SOFTWARE

MONEY'S MAKEOVER

Microsoft Money, a distant second to Intuit's Quicken in personal-finance software, will sport a new look in late summer. Money 4.0 will abandon Quicken's "checkbook" metaphor in favor of a colorful opening screen that offers a choice of financial-management modules and a daily chart showing aspects of your financial condition. Money, which was to have been sold to Novell to clear the way for Microsoft's now-abandoned acquisition of Intuit, allows you to do online banking at Chase Manhattan and others. The new version requires the Windows 95 operating system.

THE INTERNET

NEW WAY TO THE WEB

Netscape Communications gives away its World Wide Web browser, but there's a catch: You must have access to the Internet to download it. Now, Netscape Navigator Personal Edition offers another route to the Web. The $40 program provides installation of Internet-access software through various services, which charge around $20 a month for moderate use. The package includes Netscape's latest Web browser, which handles secure credit-card transactions on the Net, and a copy of Qualcomm's Eudora Lite E-mail program.

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BY RUDI DORNBUSCH

SANCTIONS AGAINST JAPAN: A NECESSARY EVIL

LAST DITCH: Decades of Japanese foot-dragging leave the U.S. no option but retaliation. Cars, however, may not be the best vehicle

Rudi Dornbusch is professor of economics and management at Massachusetts Institute of Technology

In the perennial trade conflict with Japan, the Clinton Administration promised a change. And now, whether by design, frustration, or anger, U.S. policy is about to shift: Regrettable though they may be, sanctions are essential.

On the surface, a move from talk to sanctions seems ill-advised. First, such action makes Japan the victor in a world public-relations battle: Japan emerges as the "free trader," casting the U.S. in the role of "managed trader." Also, America appears as the big uncompetitive bully forcing Japan to cave in. Finally, there is the question of using unilateral action, rather than the multilateral process for conflict resolution available through the new World Trade Organization.

But these are only surface issues. In reality, Japan is a closed economy unlike any other in the Organization for Economic Cooperation & Development. Japan's bureaucracy won't accept free trade—plain and simple. On every international commitment, from the liberalization of trade to foreign investment, Japan has dragged its feet. Nonoil imports are a smaller share of total consumption today than 30 years ago. Whether it is auto parts, aircraft landing rights, or a myriad other issues, Japan is unique in its obsession with limiting access.

For more than 20 years, the U.S. has been trying to open Japan's markets. The back-and-forth has had little result. Every U.S. Administration brings fresh negotiators onto the field to face the same old Japanese warriors. They assume the U.S. will not force the issue and will simply accept promises to do better. They have been right—until now.

WRONG TURN. Unfortunately, the U.S. has chosen the automobile as its wedge for opening up Japan. Apart from the Jeep Cherokee, American cars have a poor image in Japan. The Japanese think their own autos are great, but until recently few would say that of U.S. cars. Moreover, Detroit's efforts to sell cars in Japan have been minimal. Clinton may have picked cars as the focus of the battle for domestic political reasons: With California and Texas probably lost to the Democrats, he needs Michigan's votes to win the 1996 Presidential election.

If automobiles were selected because they loom large in the bilateral trade balance, the choice was worse still. Open trade with Japan won't necessarily shift the balance. Japan still saves and invests more than the U.S., and the yen should plunge and wages should fal Japan's exports will rise sharply.

But America's decision to impose sanctior raises questions about the WTO. The U.S. ha reluctantly accepted binding conflict resolutic by the WTO, but if the verdict goes agains the U.S., domestic political pressures ma force an early exit. The Administration shou not force the WTO into an early, high-stake battle—where the wrong decision could pla havoc with the world trading system. Globa ists delight in the notion that internation panels can make judgments and that countri will fall in line. But Congress and the peop are not so sophisticated. It is more impo tant to keep world trade going than to pe form intriguing and premature experiments internationalist maturity.

PARTY CRASHING. Another problem is E rope's wish to join the negotiations and get piece of the action without paying the pric With breathtaking hypocrisy, Europeans ha joined the chorus of lament over U.S. unila eralism. But their automobile trade is regula ed by a WTO exemption that allows import r straints. Italy and France let in few Japane cars. Nissan Motor Co.'s plants in Britain s records for high usage of local component Europe and Japan understand each other too well when it comes to managed trade. the U.S. bears the burden of imposing sar tions, it should be prepared for Europe crash the party later.

Who will gain or lose in the coming tra war? Of course, everybody loses. The U.S. traditional proponent of open markets, h already lost the publicity campaign. But Jap is certain to suffer economically. Its sto market will fall when the public sees th the last protected franchise of Japanese co panies—overcharging the domestic consu er—is coming under attack. For years, J pan has been lingering in near-recession. T coming trade war may push it over the cli

The U.S. is right to force the issue. If E rope had joined in earlier and if Japan h been more forthright, everything would ha gotten on a less confrontational track yea ago. Nobody in Washington believes Jap nese promises anymore. In Tokyo, either t bureaucrats doubt U.S. determination or th nationalism leads them into a battle alrea lost. The U.S. has no choice but to push open markets.

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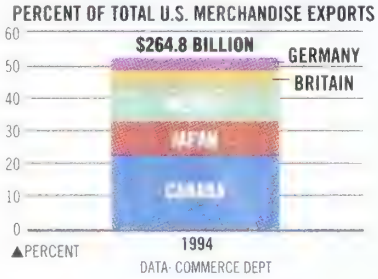
BY GENE KORETZ

A DARKENING U.S. TRADE OUTLOOK?

Demand for exports may slacken

If the U.S. economy is to negotiate a soft landing, it will need help from friends overseas. But economist Lacy H. Hunt of HSBC Holdings Inc. warns that the widely anticipated improvement in America's export performance may prove largely illusory.

To be sure, U.S. imports are now slowing and exports have looked strong in recent months. Wage restraint, restructuring, and record investment have boosted America's competitiveness. Even in dollar terms, unit labor costs have risen more slowly than in Japan or Germany over the past decade. And with the dollar down some 20% against the yen and mark this year alone, the U.S. is now the low-cost producer among industrial nations.



The problem, says Hunt, is that economic developments abroad are constraining appetites for U.S. goods. Of America's five biggest customers last year (chart), the three largest—Canada, Japan, and Mexico—are all on the edge of or in recession, while growth is slowing in Britain and may be sputtering in Germany. Weak currencies in Canada and Mexico have also raised the prices of U.S. goods in those nations.

In its latest world trade outlook, the International Monetary Fund predicts that import growth of industrialized countries will slow from 10.8% last year to 7.8% this year and to just 5% in 1996. While U.S. exports will gain ground in emerging Asia, they are headed down in such Latin American nations as Mexico and Argentina.

The upshot is that a declining U.S. trade deficit could paint a false picture of health. "If it were due mainly to falling imports rather than export expansion," says Hunt, "it would really be a sign of economic weakness."

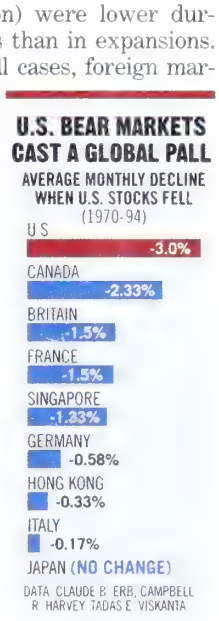
WALL STREET CALLS THE TUNE

The risks of global diversification

In recent years, investment advisers have been touting global diversification of stock market portfolios as a good way to obtain higher returns with lower risk. A new study by economists Campbell R. Harvey of Duke University and Claude B. Erb and Tadas E. Viskanta of First Chicago Investment Management Co., however, suggests that diversification can be a risky strategy.

The researchers analyzed the monthly performances in dollar terms of 21 developed country stock markets, including Hong Kong and Singapore, from 1970 through 1994. To their surprise, they found that U.S. stock market declines were usually mirrored by declines in foreign markets (chart). Indeed, over the 25-year period, 18 of the foreign markets posted a negative average return for those months in which U.S. stock prices fell. The two exceptions were Japan, with no change on average, and Austria.

Similarly, the study found that average returns in all of the 21 markets (accounting for more than 90% of world equity capitalization) were lower during U.S. recessions than in expansions. In fact, in almost all cases, foreign markets were more highly correlated with U.S. stock movements during U.S. bear markets and recessions than during U.S. bull markets and expansions.



Available data for emerging stock markets indicate that many, but far from all, have done well during U.S. bear markets. But their performance is also more variable and in some cases seems to be reversing. "No market," says Harvey, "seems impervious to U.S. economic and stock market cycles."

DECIPHERING JUNE'S JOB DATA

The figures may be skewed

After unexpected employment declines in April and May, attention is focused on the June report due out on July 7. Since the Federal Reserve open market committee meets July 5-6, many observers think the Fed could postpone a possible easing until July 7, when everyone—including Fed policymakers—has had time to digest the numbers.

The problem, says economist Maury N. Harris of PaineWebber Inc., is that the June report will be statistically flawed. This year, he notes, the June payroll survey was conducted five weeks after the May survey. And in recent decades, such large intervals between employment surveys in May and June (when many students enter the labor force) have tended to magnify any changes in the job totals.

The upshot is that June's job count will be biased upwards—complicating the Fed's task (and the markets' perception)—even though Fed economists are presumably familiar with the problem.

DON'T WAIT TO ENTER COLLEGE

Late starters rarely graduate

New high school graduates who choose to work for a year or two before entering college may be kidding themselves. According to a survey by the National Center for Education Statistics, reported in the June issue of *Numbers News*, their chances of eventually earning a college degree are considerably lessened.

In 1980, the center surveyed 15,000 high school sophomores about their educational plans. In a 1992 follow-up of the same respondents, it found that 40% of those who enrolled in college immediately after high school had earned a bachelor's degree. But of those who delayed entry, only 9% had finished the baccalaureates.

The survey also found that high school students' expectations are good predictors of future schooling. Among sophomores with no plans for higher education, for example, only 1% had earned college degrees by 1992. By contrast, 51% of those planning to attend college had gotten bachelor degrees.

Y JAMES C. COOPER & KATHLEEN MADIGAN

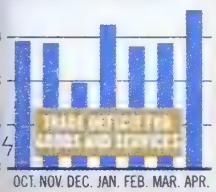
THE ECONOMIC SLOWDOWN: THE WORST MAY ALREADY BE OVER

U.S. ECONOMY

"Will you, or won't you?" That was the key question put to an Greenspan by Martin S. Davis at the June 20 eeting of the Economic Club of New York regarding e Federal Reserve Chairman's inclination to cut inter- t rates. His answer: Yes and no.

Greenspan's expected avoidance of the question ay well mask many of the Fed chief's own uncertain- es about the economic outlook, or so it appeared om his remarks that evening. While Greenspan sug- sted that it's never a good idea to pack away your cession fears when an economy looks as weak as this e, he still seems unconvinced that the economy is fficiently at risk to ease policy.

A SURPRISINGLY BAD TRADE NUMBER



DATA: COMMERCE DEPT.

Indeed, a glimmer of a silver lining is beginning to form around some of the second quarter's darkest data. Notwithstanding the puny-looking April and May numbers on consumer spending, housing, and the labor markets, several early-bird readings for June suggest that much of the economy's weakness will prove to be temporary. For example, employment claims, retail sales, and mortgage activ- all show improvement from May.

One dark cloud over the second quarter could be eign trade. The April trade deficit for goods and rvices widened unexpectedly, to $11.4 billion from .8 billion in March (chart). Exports fell 1.3%, partly flecting another sharp drop in shipments to Mexico, ile imports jumped 1%, hitting yet another record. The gap will have to narrow considerably in May and ne for foreign trade to avoid being a big drag on sec- d-quarter growth. For the rest of the year, however, ports are bound to slow, given the weaker U. S. nomy, and exports will pick up as the Mexican econ- ıy stabilizes.

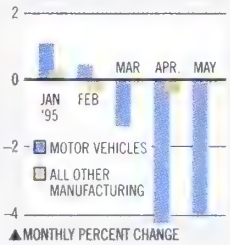
IT WHILE IT'S EASY to focus on the second quar- 's weakness, the crucial questions for the outlook, d especially for Federal Reserve policy, are the slow- wn's three D's: its depth, duration, and dispersion. The early June readings strongly suggest that the nomy has slowed but not stopped. The weakness will t only as long as it takes for businesses to adjust eir top-heavy inventories, a process that appears to moving forward. And while the slowdown is fairly broad, deep cuts by the auto industry are making it look worse than it really is.

Greenspan told the Economic Club that the pattern of the inventory correction would be "crucial to the outlook," that is, whether inventories are brought into line quickly or if the process is more drawn out with a more severe impact on the economy.

But while Greenspan sees inventories dominating the near-term outlook, he said the key underpinning for sustained growth was demand. On that score, he admitted, "uncertainties abound," since the inventory adjustment itself can feed back adversely on demand.

Greenspan strongly suggested that policy was at a crossroads. He said now is "a time for intensifying our normal surveillance and analysis of ongoing developments, to gauge whether policy still is appropriately positioned to foster sustained economic expansion."

FLAGGING CARMAKERS LEAD OUTPUT SLUMP



DATA: FEDERAL RESERVE, BUSINESS WEEK

He appeared to be preparing the markets for an eventual easing of policy. But because of uncertainty over how the slowdown generally, and the inventory correction specifically, will play out, the Fed seems unlikely to move at its July 5-6 meeting. It should be a lively affair, given recent divergent policy statements by various Fed officials. The New York audience erupted in laughter when Greenspan promised that the meeting would be "most engaging."

THE FED'S LATEST REPORT on the economy noted that economic activity "remains at a high level" across much of the U. S., but there are signs of "some softening" in many of the Fed's 12 districts, especially in interest-sensitive sectors such as housing and autos.

Detroit's impact on output was clear from May's report on industrial production, which fell 0.2%, the third consecutive decline (chart). Output in manufacturing alone dipped 0.3%, the fourth drop in a row. Since February, when auto production peaked, factory output has fallen at an annual rate of 3.8%. But excluding motor vehicles and parts—only about 6% of factory output—production has declined at only a 1.9% pace.

Production cuts and better May car sales are bringing auto inventories into better shape. That means overall business inventories in May and June will be growing more slowly than April's large 0.8% increase.

At least modest consumer-spending gains are critical

ERIC HOFFMANN/BW

to the quick completion of the inventory adjustment. And on that score, the signs are encouraging. Despite weaker labor markets, consumer attitudes were more upbeat in early June, according to the University of Michigan's index of consumer sentiment. The index rose to 92.3 from 89.8 in May, with a sizable increase in expectations for the future.

CONSUMERS MIGHT WELL remain confident because weakness in the job market is not so widespread as to be worrisome. Indeed, initial jobless claims through mid-June have declined for three weeks in a row. If that pattern continues, it means that labor-market weakness has bottomed out.

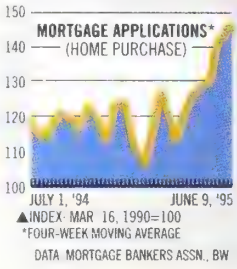
Retail surveys are generally upbeat about June sales. The *Johnson Redbook* tally shows seasonally adjusted sales through the first three weeks of the month up 1.5% from the May level. That pace is consistent with a fairly healthy consumer sector.

Housing may also be in for better times later in the second half. Housing starts dipped 1.3% in May, to an annual rate of 1.24 million. The drop nullified April's small increase, knocking starts back down to their March level, and new construction of single-family homes fell to the lowest level in more than two years.

However, lower mortgage rates are lifting demand. The average rate on a 30-year fixed loan had fallen to 7.75% in mid-June from a recent peak of 9.32% back in January. That dropped the average monthly payme on a $100,000 mortgage from $828 to $699.

So far in June, mortgage applications to buy a hon have jumped more than 6% from May, and May's p perwork was up more than 10% from April. Applic tions in mid-June were the most in almost a ye (chart). That rise will show up in sales data later the summer and in early autumn.

For now, builders are working through a heavy backlog of unsold homes, the largest supply in about five years. The good news is that construction companies are seeing signs of better times. An increasing number of them in June saw improving current demand and better traffic through model homes, and more expected demand to get better during the next six months, according to the National Associ tion of Home Builders.



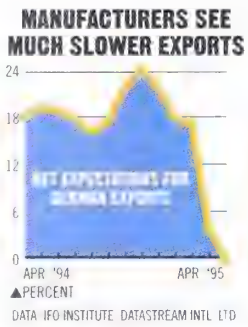
All of this hardly adds up to an ebullient economy. particular, some of the data in coming weeks is bou to show continued weakness. That's why Greensp believes that the probability of a recession has rise But based on reports so far, that probability seer unlikely to become reality.

GERMANY

NO HELP FROM THE BUNDESBANK YET

Lackluster data is putting pressure on the Bundesbank to cut interest rates. But so far, the central bank is resisting.

In its own June economic report, the Buba said it expects "a slowing down of growth." The index of business climate fell in April, with all industries showing more pessimism. And private economists are trimming their forecasts for Germany. The consensus now calls for gross domestic product to grow at closer to a 2.5% rate in 1995 and 1996 rather than a faster, job-creating pace of 3%. Even so, the central bank did not lower rates at its June 14 meeting, a disappointment for many investors and the 9.2% of west Germans who are jobless.



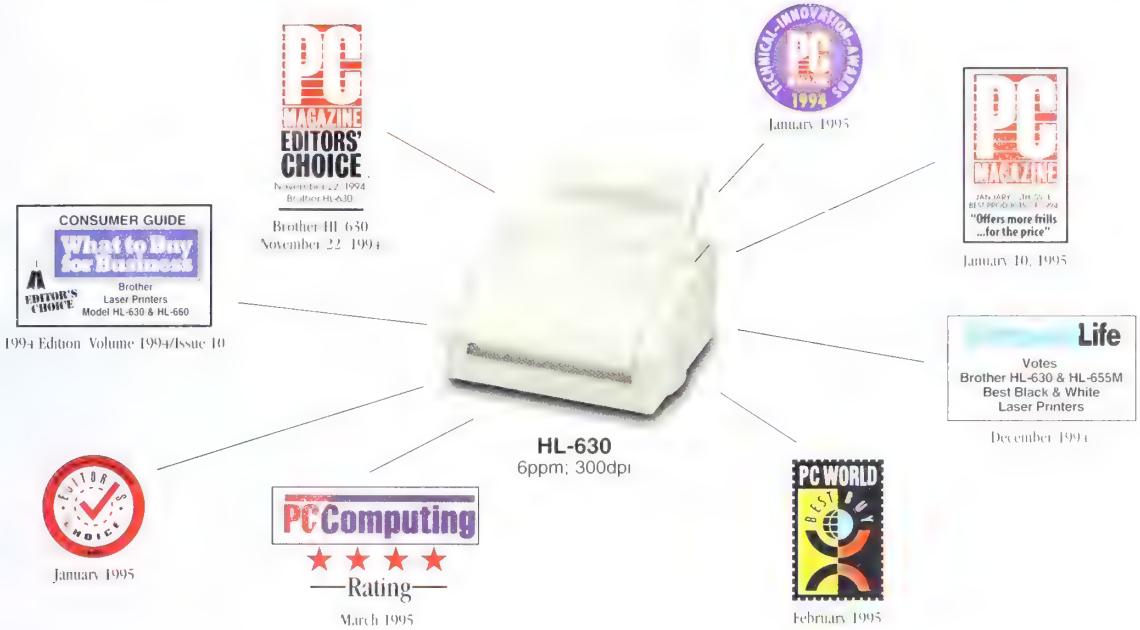
Analyzing the economy right now is difficult because industrial output and orders have been delayed as Germany changes its data to comply with new European Economic Community methods. Even so, it is clear that slower exports are causing the downshift.

Exports are being hurt by the strong mark as well as rising labor costs, a consequence of the generous contracts hammered out with two of Germany's top unions. On June 20, the Federation of Chambers of Commerce said that exports will rise only 5% this year, down from 9.1% in 1994. And in an IFO Institute survey, manufacturers' net expectations for exports over the next three months fell to –0.9% i April, the first negative reading i 18 months.

Meanwhile, inflation, the Buba's main adversary, seems less of a problem. In May, the M3 money supply, considered the key inflation indicator, was down at an an nual rate of 0.7% from its 1994 fourth-quarter average. And wholesale prices rose a mere 0.1% in May.

Tax relief is set for early 1996. But any more fiscal help will tak time to work through the economy. The Buba would like to see consumer inflation below 2%, fro 2.2% in May, before cutting rates But if Germany is to have momentum going into '96, the centr bank, which last eased in March, may have to cut again before its summer recess in late July.

The award winning original.



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CAMPAIGN FINANCE

A HARD SELL CALLED CLINTON

Snaring business support won't be easy

James O. Edwards has taken on a task few corporate executives would touch: raising $50,000 for President Clinton's reelection. The CEO of ICF Kaiser International Inc., a $1 billion engineering construction company in Fairfax, Va., knows most of his business associates are rabid Republicans who wouldn't give a dime to Clinton. So Edwards is hitting up 100 personal friends for $500 each. "The President has done an excellent job of managing the economy," he says. Still, other execs aren't buying that line. "I wouldn't even approach a lot of people," Edwards admits.

ELECTION '96

It may be a tough sell, but the Clinton '96 campaign already is putting the arm on Corporate America. As its fund-raising campaign formally kicks off, the Clintonites are counting on a clique of CEOs like Edwards to tap into a network of well-heeled business associates.

The goal isn't limited to coming up with cash. Clinton wants executives to spread the word in boardrooms and on shop floors that this President has been good for business and the economy. "We want CEOs active politically, garnering support from fellow CEOs and from the tens of thousands of employees they represent," says Terence R. McAuliffe, a real estate developer who is heading up the campaign's fund-raising operation.

McAuliffe already has a core group of missionaries: Felix G. Rohatyn of Lazard Frères, Bernard L. Schwartz of Loral Corp., Paul M. Montrone of Fisher Scientific International, James A. Harmon of Wertheim Schroder, David Geffen of DreamWorks SKG, Steven J. Green of Astrum International, Richard H. Jenrette of Equitable Cos., and Jerry K. Pearlman of Zenith Electronics.

WALL STREET PALS. That's just the short list. McAuliffe will spend the summer drumming up support from other top execs in time for fall fund-raisers in major cities. His troops will meet with executives and try to convince them Clinton is not just a tax-and-spend Democrat. McAuliffe also will target entrepreneurs. He hopes to match his success as a top fund-raiser for the Democratic National Committee, where he boosted number of $10,000 donors from 1 1993 to 900 now—most from sm companies.

Of course, even embattled incum

THE CHIEFS STILL HAILING TO THE CHIEF

As Clinton's campaign-finance committee kicks into high gear, it is calling on corporate supporters from 1992. Many of the executives who threw their weight behind the Prez are still standing by their man from Hope.

JOHN BRYAN

Sara Lee's chief executive was an active supporter of the Democratic ticket in 1992. Bryan still backs Clinton, but shareholders have pressured him to keep a lower profile during the 1996 Presidential race.

DAVID GEFFEN

He helpe organize Hollywoo for Clinto and recen co-hosted million fu for the D Party. Ge continue to tap his Tinseltow on behalf of the President.

residents have little trouble raising money. And Clinton is well on his way to meeting his yearend goal of $30 million—enough to counter Republican broadsides during the primaries and scare off would-be Democratic challengers. The campaign already has raised $11.5 million, including federal matching funds.

But now things are moving into high gear, with the first Presidential fundraiser of the campaign scheduled for June 22. Clinton and Vice-President Al Gore were to appear in Somerset, N.J., before 1,000 donors, each paying $1,000—the maximum contribution for a Presidential campaign. Other late-June events in Little Rock and Chicago are expected to raise similar amounts.

The far bigger challenge is getting business leaders on the Clinton bandwagon at a time when Corporate America is wildly cheering GOP vows to trim taxes, slash federal spending, and relax regulations. "I think it's going to be very uphill," concedes Rohatyn, who will sign on to tap Wall Street buddies. After all, business hated Clinton's 1993 tax hike on high-income Americans and his big-government health-care plan.

The pitch of Rohatyn and his colleagues: Look at Clinton's record. He has presided over a strong economy, low inflation, job growth, and aggressive export promotion. And he pushed for the North American Free Trade Agreement (NAFTA), a new world trade accord, and a bailout for Mexico.

Loral's Schwartz says he already may have won some converts with such arguments. After the 1992 election, he says, "all the die-hard [Republicans] were saying that this lucky guy was cashing in on policies Bush put in place. Nobody now can say that the continued strength of the stock market has anything to do with Bush."

The big challenge will be to win over corporate execs who have been cheering GOP vows to trim taxes, slash spending, and relax regulations

As in 1992, Wall Street will be a big source of financial help. Harmon of Wertheim Schroder & Co. says Clinton's 1993 deficit-reduction efforts and his recent balanced-budget proposal will be selling points. "One reason the securities markets are going through the roof is that the financial community recognizes that the President's budget proposal is very reasonable," Harmon says.

"RECOVERING ALCOHOLIC." To woo execs at multinationals, the Clintonites will promote the President's trade policy—not only NAFTA and the General Agreement on Tariffs & Trade but also Commerce Secretary Ronald H. Brown's overseas trade missions, which have secured lucrative contracts. "I think that it's to [Clinton's] credit that he supported NAFTA and GATT, sometimes going against one of his major constituencies, organized labor," says Montrone.

Green, CEO of Astrum International Corp., which owns Samsonite and American Tourister luggage, says he intends to raise money, talk up Clinton, and offer advice. He says many GOP proposals may be good for business, but not for the nation. "There's a balance between balancing the budget and being so hard that you create civil problems," he says. "While I truly believe in fiscal conservatism, it's outrageous that we could live in a country that didn't provide medical assistance for ill people."

Clinton strategists say they're finding other like-minded CEOs who worry about Republican excess. Indeed, Edward R. McCracken, CEO of Silicon Graphics Inc., worries that the GOP may be going too far on such issues as affirmative action and immigration. A Republican who supported Clinton in 1992, he is holding back an endorsement this time until he sees who emerges as the GOP favorite. He also wants Clinton to back legal reforms

EDWARD McCRACKEN

The chairman of Silicon Graphics, a moderate Republican, supported Clinton in 1992. He says he likes the President's performance but wants to see Republican emerges before he a decision on who to support.

PAUL MONTRONE

The CEO of Fisher Scientific raised money for Clinton last time around and will put together a high-visibility group of CEOs for Clinton in 1996. He says Clinton understands the U.S. role in a global economy.

BERNARD SCHWARTZ

The CEO of defense electronics giant Loral is a lifelong Democrat and a major party donor. He thinks Clinton should get credit for the nation's strong economic performance and plans to talk up the President's record with other execs.

that would make it harder to bring frivolous shareholder suits—a problem for high-tech companies. "If the President vetoes that, he will lose all support in Silicon Valley," McCracken warns.

Clinton may already have lost a major backer in Tech Land. Lawrence J. Ellison, CEO of Oracle Corp., a software giant, says he liked Clinton's support of NAFTA and GATT but worries about his lurches to the left. Ellison notes that he was a big contributor to Democratic Party groups and a strong supporter of Clinton in 1992. "I say that now like a recovering alcoholic," he says. John H. Bryan, CEO of Sara Lee Corp., still supports Clinton but is likely to take a lower profile this time around. One reason: Shareholders at annual meetings have repeatedly questioned Bryan about his high-visibility support of Clinton.

But for every defection, the Clintonites hope to bag many more new supporters. One target: August A. Busch III, CEO of Anheuser-Busch Cos. and a supporter of the Administration on issues such as the 1993 deficit-reductio plan. If the economy stays strong an the President's poll numbers rise, th campaign just might start picking u CEOs inclined to go with a winner. Mea while, Clinton's Corporate Campaig Clique has its hands full just gettin into boardrooms—and getting someon to listen.

By Susan B. Garland in Washingto with Mark Maremont in Boston, Robe D. Hof in San Francisco, Leah Nathan Spiro in New York, and bureau report

PEOPLE

BILL'S DAVE PROBLEM

Clinton crony Watkins has the Prez in hot water again

Once a Friend of Bill, always a Friend of Bill. Just ask David Watkins, a lifelong pal of President Clinton's from Hope, Ark. A senior campaign finance official in the 1992 Clinton-Gore campaign, Watkins lost his high-ranking White House job last year for using a Presidential helicopter to get him to a golf outing. But that hasn't stopped Clinton's campaign committee from continuing to pay Watkins monthly installments that totaled at least $30,000 during the past year.

Watkins, the former head of the White House Office of Management & Administration, was dumped in May, 1994, after he flew aboard a Presidential chopper to a Maryland country club. Already smarting from previous episodes of Arkansas cronyism on the part of Clinton aides, the White House asked Watkins to repay $13,679 for the use of the aircraft. Watkins protested, but did so in June, 1994, the White House says.

CONSULTING FEES. By July, 1994, Watkins was back on the payroll of Clinton's still-operating 1992 campaign committee, collecting consulting fees, according to Clinton's Federal Election Commission filings. After an initial batch of checks totaling $9,000, the Clinton for President Committee since September, 1994, has sent $3,000 monthly checks to the Watkins Group, an inactive consulting firm based in Little Rock, records show. Watkins didn't return calls seeking comment. Since late last year, he has worked as vice-president of corporate communications for Carlsbad (Calif.) golf-club maker Callaway Golf Co.

Lyn Utrecht, Clinton campaign counsel, says that Watkins was hired last summer to help staffers respond to questions from the FEC. She says Watkins was paid a monthly fee to prepare an affidavit about bonuses paid to workers and to help respond to other FEC questions about campaign payments. In the end, the FEC ordered the Clinton campaign to refund $1.4 million to the Treasury Dept. because of failure to justify or document an array of expenses. The payments to Watkins stopped as of this month, Utrecht says, now that the FEC audits are complete.

In the course of the audit, however, the FEC raised a red flag about one unusual "consulting" payment. According to reports in the *Wall Street Journal* and elsewhere, the money was part of a $37,500 payment made by the Clint campaign to settle sexual harassme charges brought against Watkins by female accountant who worked for t campaign. The FEC ordered the ca paign to repay $9,675—the portion p vided by federal matching funds—us in the settlement payment. "There w no finding of wrongdoing or violatio Utrecht insists. But she refused to d cuss details, saying they come unde confidentiality agreement. The Wh House referred queries to Utrecht.

Now, Republicans on Capitol H have questions. By fall, the House G ernment Reform & Oversight Comm tee plans to query Watkins about p ments he received from the campaign part of its probe of "Travelgate," a 19 flap in which Watkins presided o mass firings of White House travel-of workers. "After being fired from t White House, for Watkins to go on t campaign's payroll raises some seri questions," says the panel's chairm William F. Clinger Jr. (R-Pa.).

One thing about coming from a pl called Hope. Friendship still counts.

By Michael Schroe in Washing

POLITICAL DIVOT: *Watkins' (center, in hat) golf outing led to his resignation*

> Since he was dumped a year ago, Watkins has collected $30,000 from the Clinton campaign

COMMENTARY

By Howard Gleckman

THE BUDGET: HOW TO WHACK $10 BILLION—NOW

Trimming "corporate welfare" is back in vogue. The budget plan President Clinton unveiled on June 13 cuts business tax breaks and spending subsidies by $3.5 billion a year. House Budget Committee Chairman John R. Kasich (R-Ohio) wants to save that much just by closing corporate tax loopholes.

Clinton and Kasich are on the right track, but they don't go far enough. At a time when federal subsidies of all kinds are on the block, Washington can't justify preserving costly tax breaks that give specific companies or industries an unfair edge in the marketplace. Congress could easily trim these giveaways by more than $10 billion a year.

Here's a hit list: The $2 billion a year in special-interest tax subsidies that go to oil and mining interests, the $1 billion that credit unions receive, the nearly $4 billion enjoyed by big drugmakers operating in Puerto Rico, and the $1.5 billion that U.S. companies get by exporting through paper subsidiaries called foreign sales corporations. Add to that the $1 billion federal subsidy for state and local tax-exempt bonds used to finance privately owned facilities, such as manufacturing and wastewater treatment plants, and the $400 million or so that goes to Christmas-tree growers, windmill makers, and U.S. shipbuilders. Here's another: Because drivers in nine big cities are required to use special gas to cut air pollution, corn-based ethanol refiners get a $500 million tax break—most of which goes to one company, Archer Daniels Midland Co. A competing product, made from natural gas, gets no such benefit.

CREDIBILITY BOOST. These subsidies are among the most egregious of the hundreds of billions of dollars in tax breaks and cash subsidies that Washington showers on Corporate America. Outrageous tax incentives have spawned a backlash against all business deductions, even depreciation, a normal cost of doing business that companies should be able to write off. There are simple ways to define handouts that should be scrapped: Tax breaks targeted to a specific industry or transaction ought to be dumped, and so should deductions that exceed the cost of producing goods.

One big item on this tax-break hit list: $2 billion a year in subsidies for oil and mining

Eliminating these subsidies is both good politics and sound economics. The move would strengthen the GOP's credibility when it vows that everyone must share the pain for the budget to be balanced. And it would better allow markets, rather than government, to decide the fate of products and companies.

Many giveaways don't even provide the intended benefits. For instance, a shift of a few dollars in the world price of oil has more impact on production than tax write-offs. In truth, notes Robert J. Shapiro, vice-president of the Progressive Policy Institute, a moderate Democratic think tank, these breaks hurt the economy: "Not only do they claim taxpayer resources, but they insulate subsidized industries from the full flow of competition."

Yet these sorts of tax breaks have been sacrosanct so far this year. Led by House Ways & Means Committee Chairman Bill Archer (R-Tex.), defenders argue that letting companies keep more of what they earn hardly amounts to a subsidy. Instead, they say, it's just a boon to the free-enterprise system.

FINAL STEP. But that argument is losing steam. Conservative think tanks such as the Cato Institute and the Progress & Freedom Foundation (page 48) favor ending targeted tax preferences, which smack of industrial policy. And closing loopholes is really nothing new for the GOP. After all, in 1982 and 1984, President Ronald Reagan and Bob Dole (R-Kan.), then chairman of the Senate Finance Committee, cut back on business subsidies. Even the hottest fad in taxdom—replacing the income tax with a consumption tax—would eliminate most targeted business deductions.

Congressional Republicans are taking dramatic steps to end government-generated market inefficiencies. They've pushed regulatory and legal reform. They are moving to curb Washington's role in picking winners and losers through direct spending. Now they should take one final step—removing the tax code from economic decision-making.

Someday, tax reform may do that. But why wait? Congress—with Clinton's support—can start now by dumping the worst of the tax giveaways. It would be powerful evidence that the goal of the GOP really is reform—and not just protecting corporate fat cats.

Gleckman covers tax policy from Washington.

BARBARA FAIN/BLACK STAR

CALIFORNIA

THE DROUGHT THAT'S DRAINING L.A.

County coffers are empty, with little relief in sight

In May, the Los Angeles County Board of Supervisors made an 11th-hour trip to Washington with outstretched hands. Desperate to close a yawning $1.2 billion budget gap and fearful over the specter of cuts to federal programs that help pay for everything from county hospitals to the arts, the five-member board pleaded for relief with White House Chief of Staff Leon E. Panetta, Senate Majority Leader Bob Dole (R-Kan.), and 16 members of Congress. To no avail.

On June 20, the nation's largest county—home to more than 9 million residents—began weighing severe cutbacks. The board is considering a plan to slash more than 18,000 jobs—20% of the county workforce. It may shutter more than a dozen libraries, close 30 parks, and dismiss six judges. Most draconian of all: the board may shut down the 1,400-bed Los Angeles County-USC Medical Center, along with 29 outpatient facilities. "We need to act now to remain solvent," says Sally R. Reed, the County's chief administrative officer.

URBAN ILLS. Los Angeles is not alone. New York City faces a recurring budget crisis. Washington is a fiscal disaster. And with the economy slowing, the budget squeeze is bound to spread. Says Helen F. Ladd, a professor of public policy studies at Duke University and co-author of *America's Ailing Cities*. "We have an increasing proportion of disadvantaged people living in cities who put demands on city resources at the same time the cities' ability to raise revenue is decreasing."

Certainly, the political climate is inhospitable toward cities. State capitals are tightfisted. Washington wavers between indifference and hostility. "With 30 Republican governors and Newt Federalism in Washington, states are free to simply say no," says Richard P. Nathan, director of the Rockefeller Institute of Government. "We're watching the start of the biggest political shift since the New Deal."

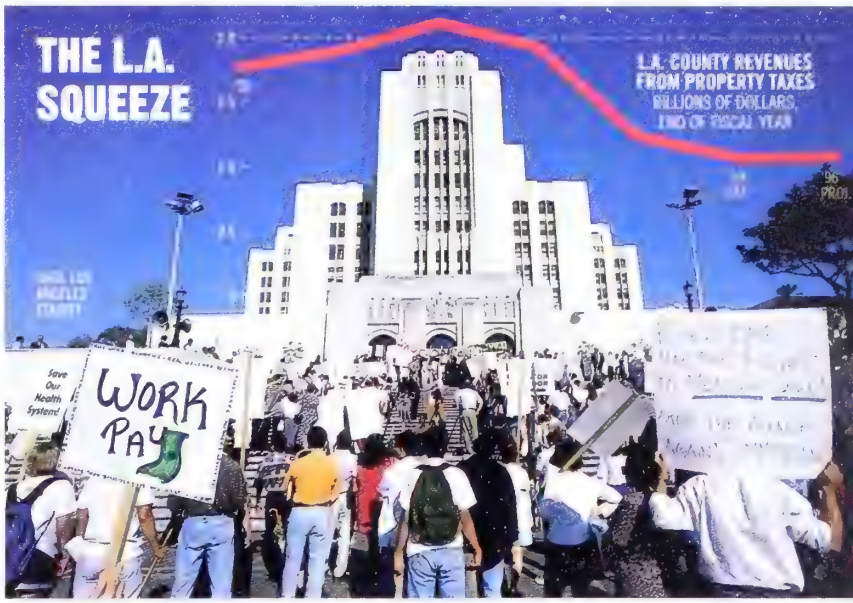
Look at New York. Just weeks before the beginning of the city's new fiscal year, Mayor Rudolph W. Giuliani found out he would be receiving nearly $700 million less in state aid than he had been counting on. His latest budget cuts millions for schools, hospitals, welfare, and the arts. And after pushing through a series of tax cuts in a state with its own economic problems, New York Governor George E. Pataki has little room to help out. "You can't get blood from a stone," says Harrison J. Goldin, a former New York City comptroller.

Los Angeles County exacerbated its problems by relying on short-term borrowing and accounting tricks to balance the budget. But L. A.'s problems run a lot deeper than a politician's typical bag of financial gimmicks. Years of defense-industry layoffs, a crumbling real estate market, and a mind-boggling combination of natural and man-made disasters ranging from earthquakes to riots, put L. A. into a slump for much of the '90s. Many middle-class taxpayers fled the county in favor of other parts of California and other states. The county has seen its property tax revenues cut in half since 1992, and the state government is focused on putting its ow budget house in order. This year, th L. A. economy is growing at a fragi 1% rate, and it can ill afford to abso the loss of another 18,000 jobs, says D vid Hensley, economist for Salomo Brothers Inc.

JITTERS. The county will tap the publ markets to replenish the coffers for no But investors are jittery after the ban ruptcy of Orange County, L. A.'s neig bor to the south. The rating agenci are considering downgrading up to billion in long-term debt. To ensure smooth June 21 sale of $1.3 billion short-term notes, L. A. had to purcha a costly letter of credit from a syndica of banks led by Crédit Suisse.

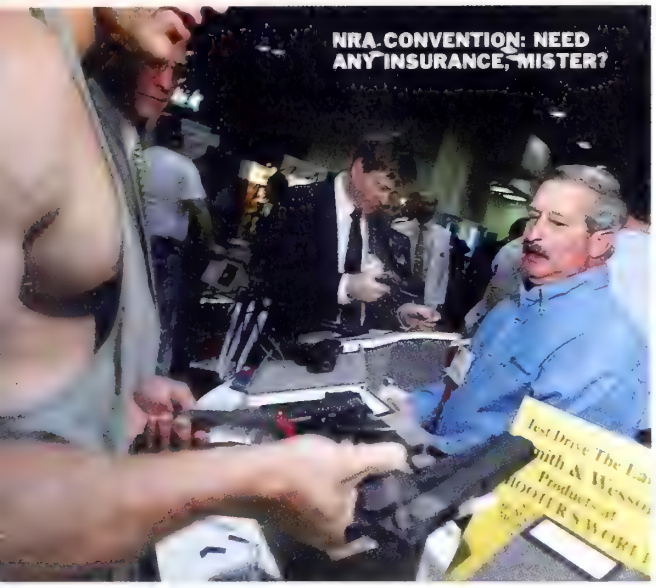
Big-city governments are at the ea ly stages of a drastic overhaul to r duce their huge operating deficits. Co cutting is in. Privatizing public servic is popular. But these reforms take tir to work—and that offers scant comfo to the country's major cities over t next several years. "The rubber ba has been stretched and stretched f years," says Theodore Hershberg, pr fessor of public policy at the Unive sity of Pennsylvania. "Now it h snapped." For large urban areas, t message is clear: You're on your ow

By Eric Schine, with Nanette Byrn in Los Angeles and Kelley Holland New York



Earthquakes, riots, and floods have zapped the county. Now, it may slash 18,000 jobs

PROTESTS: L.A. COUNTY-USC MEDICAL CENTER MAY BE FORCED TO CLOSE



ARE THEY BUSINESSES?

AARP Half of its yearly revenue now comes from the sale of such services as insurance. Congressional critics are probing how the AARP uses the money.

NRA The IRS wants to know if the NRA uses any tax-free money generated by commercial activities to lobby against gun laws.

SIERRA CLUB The feds want to overturn a court decision classifying the sale of membership lists and its logo as nontaxable.

UNIVERSITIES The IRS is auditing membership fees for campus golf and athletic clubs.

ONPROFITS

T'S OPEN SEASON ON NONPROFITS

heir ringing cash registers have Washington up in arms

hey call it The Yuppie Y: eight gleaming floors of designer exercise machines, squash courts, an Olym-e-size swimming pool, a virtual-reality lf course, and a multimedia Nautilus om right smack in the middle of wntown Washington. You can even t your Guccis polished while you work t. Down the block from the YMCA, ed-rs at the National Geographic Soci-y's posh headquarters stroll about lush rdens when they're not compiling the ciety's venerated magazine, mailed e to its 9 million members.

Welcome to the world of nonprofit ganizations, where groups with a use manage to do quite well, thank u, by profiting from their tax-exempt atus. Internal Revenue Service fig-es show that from 1975 to 1990, the nprofit sector grew from 6% of the oss domestic product to 10%, while venues climbed 227%—more than four nes as fast as the rest of the economy.

HALE CHECKS. Behind the surge is ver marketing. To pull in dollars, non-ofit hospitals are establishing lucra-e laboratories, nursing homes—even alth clubs. Universities take in laun-y from local restaurants. Museums en lavish shops selling designer ties. ivironmental groups market affinity edit cards and bank checks imprinted th dolphins and whales.

Now, the spectacular success of non-ofits in the commercial arena is provoking a backlash from critics and new scrutiny from the federal government. The aim: to see if the organizations are abusing their tax-exempt status by hauling in big bucks that otherwise would go to taxpaying business competitors. Critics also are asking whether nonprofits are using their tax-free commercial revenue to lobby Congress for favorable legislation and more federal grants.

Not even the most powerful are exempt from the scrutiny. Senator Alan K. Simpson (R-Wyo.) held hearings on the giant 38 million-member American Association of Retired Persons on June 20. Simpson, who wants to tighten restrictions on tax-exempt enterprises, calls the AARP "America's most powerful sympathy-creating group." He blasted it for receiving $86 million in federal grants and for spending up to $36 million lobbying Congress for more aid for the elderly. Last year, more than half of the organization's annual revenue of $382 million came from the sale of goods and services such as insurance and pharmaceuticals, and much of that money escaped taxes.

The National Rifle Assn., one of the Clinton Administration's chief tormentors, also is under tough government scrutiny. The IRS is auditing the NRA to determine whether it used any of the tax-free $14 million from its profitable sideline activities—including magazine, gun, and insurance sales—to support the campaigns of politicians opposed to gun control and to lobby against gun restrictions.

Small businesses are pushing hard for further probes. Tax laws written in the 1950s were supposed to keep the playing field level for commercial businesses by taxing some of the nonprofits' take. But the rules haven't kept pace with the explosive growth in commercial activities. The General Accounting Office notes that 96% of charitable and social welfare groups now manage to avoid paying any taxes, even though 79% of their revenue is from commercial endeavors. That's because 501(c) organizations—generally educational, social welfare, religious, and charitable groups—aren't taxed on the sale of goods and services deemed "related" to a group's purpose.

NURSES IN NIKES? Thus, the National Capital YMCA pays no federal income taxes on revenue from its monthly dues, which run up to $98. Similarly, hospitals can call their fancy gyms "physical rehabilitation centers" and sell corporate memberships. "They use their tax-exempt status to offer added amenities like free towel service and 'executive locker rooms,'" gripes Helen Durkin of the International Health, Racquet & Sportsclub Assn. "It's tough to compete with that."

The squeeze is on. The nation's 600,000 charitable groups, which receive 37% of their funding from government sources, are facing funding cutbacks from Washington's efforts to balance the budget. With pressure simultaneously mounting to modernize tax legislation dealing with nonprofits, life may never be so cozy again for the country's groups with a cause.

By Paul Magnusson in Washington

FREE TOWELS

Hospitals cater to executives with posh gyms called "physical rehabilitation centers"

NNA BERMANSUPA

PEOPLE

GM LEARNS TO LOVE AN OUTSIDER

Marketer Zarrella, fresh from Bausch & Lomb, quiets skeptics

Last fall, when General Motors Corp. brass began looking for an outsider to become the No. 1 carmaker's top marketing honcho, dismay spread among the ranks. Without auto industry experience, argued GMers, nobody could possibly fathom the intricacies of selling cars. So in November, when the company tapped Bausch & Lomb President Ronald L. Zarrella for the job, his background in underwear manufacturing and contact-lens sales prompted Motown wags to wager he would quickly wash out of GM's hidebound, politics-ridden culture.

Surprise, surprise. Seven months after coming on board, the 45-year-old executive's marketing horse sense and extroverted personality have forged alliances and won over skeptics—at least among GM's top ranks. "He has survived the GM immune system," marvels John D. Rock, Oldsmobile's general manager. With backing from GM President John F. Smith Jr., a fellow East Coaster, Zarrella is feeling secure enough to take some unpopular stances: In early June, his opposition helped ax Cadillac's plans to sell a luxury sport-utility vehicle.

BIG DROP. Now comes the real gear-grinder: sorting out GM's muddled and overlapping brands. In several months, Zarrella will begin naming new "brand managers" to help sharpen GM's confused marketing. He also will have to winnow too-similar cars and trucks out of GM's lineup. But cutting models is an explosive decision: Dealers and marketers must suddenly survive with fewer to sell. Zarrella concedes the difficulties but says: "We think we can do more volume with fewer entries."

One of Zarrella's priorities is Cadillac, where 1995 sales are down 28%. Zarrella rejected simply slapping a Cadillac crest on one of GM's big Jeep-like trucks. Not doing so is a risky strategy: Companies from Mercedes to Lexus are racing to come out with fancy trucks. But he thinks the luxury-truck field already is getting crowded and wants Cadillac to focus on making its cars more competitive with foreign rivals'. The first step will come next year with the new Catera, which is based on a European model and is aimed at younger, hipper buyers.

Zarrella's broad perspective is helping to win over many GMers. He was trained as an engineer at Worcester Polytechnic Institute in Massachusetts and began his career as a manufacturing expert at Playtex FP Group Inc. Tapped as management timber, he did stints in sales and marketing, then ran the company's Australian division before taking a job at Bausch & Lomb Inc. There, he aggressively pushed overseas sales, and became president in 1993.

Now, the biggest cloud hanging over Zarrella may relate to Bausch & Lomb. The Securities & Exchange Commission has been investigating an alleged effort there to boost results in late 1993 by forcing distributors to take huge contact-lens shipments—while secretly assuring many that they didn't have to pay for them until they were sold. So far, no one has been charged with wrongdoing. Zarrella concedes he approved the move, intended to clear out slow-selling inventory, but says it was poorly executed. Bausch & Lomb has said it inappropriately booked some revenues, but both it and Zarrella say th amount was immaterial to 1993 result

Meanwhile, Zarrella's experience wit brands such as Ray-Ban sunglasses co ors his approach to cars. For starter he is pushing GM to spread advertisin budgets more evenly over the life of car model, rather than spending a hug amount at introduction, as the compan now usually does. He also has decide that it's easier to rehabilitate venerab product names than to start over fro scratch. This winter, Rock propose dropping the Cutlass moniker from th 1996 replacement model, but Zarrel nixed the idea.

Zarrella enjoys cars (he sold his st ble of BMWs when he joined GM), b his personal interests range wide. loves fine wines and is an avid angler. college, he captained the golf squad, a he still plays occasionally. There has been much time for that recently, ho ever, what with shuttling to Rochest N. Y., on weekends so his 9-year-o daughter could finish the school ye before he moved his family west.

As he settles in, Zarrella admits t new alliances he has made at GM will sorely tested as he pushes for change. doubt if I've won over all the skeptic he concedes. Not yet, anyway.

By David Woodruff in Detroit, w Mark Maremont in Boston

RONALD L. ZARRELLA

BORN Waterbury, Conn., Oct. 12, 1949.

EDUCATION BS engineering, Worcester Polytechnic Institute, 1971; MBA, New York University, 1978.

EXPERIENCE At Playtex, he rose to general manager of Australian operations before moving to Bausch & Lomb, where he eventually became president and CEO. He left to take GM's top marketing job last November.

PERSONAL Wine collecting, sailing, golf, fishing.

ETC. Zarrella was a devoted driver of BMWs but had to switch to GM models.

PICCOLO: *Buying and managing doctors' groups*

NVESTIGATIONS

A MEA CULPA—AND A COMEBACK?

After its guilty plea, Caremark plans a new path

As a star linebacker for Boston University and later as a U. S. Marine Corps captain, C. A. "Lance" Piccolo was known for relishing a good fight, backing it up with his 225-pound Mack-truck frame. But for the past four years, the chairman and CEO of Caremark International Inc. has been on the losing side of a battle with federal investigators probing charges that the Northbrook (Ill.) home-health-care company paid kickbacks to physicians in return for referrals within its home-infusion, oncology, hemophilia, and human-growth-hormone businesses.

On June 16, Piccolo's battle ended. Caremark agreed to plead guilty and pay $159 million in civil damages and criminal fines—among the largest health-care-fraud settlements ever obtained. Piccolo, who once vowed to vindicate Caremark of the charges, now sounds almost repentant. "There are no winks or cheers," he says of the settlement. "I just feel genuinely bad that it happened, and I'm glad it's over."

So are Caremark's investors. Since its 1992 spin-off at $12 a share from Baxter International Inc., a maker of medical devices, Caremark has doubled its net revenues, to $2.4 billion. Speculation over the probe, however, had knocked down its stock price to around $17 a share—well below its high of $26 last August, despite a robust 1994 performance that saw net income rise 22.8%, to $80.4 million. The shares now are trading around $21.

Piccolo is forging ahead with a new vision for Caremark. He intends to shift the company away from its roots in home health care and build a broad network of medical services centered on company-owned doctors' clinics. In the past two years, Caremark has signed up some 700 doctors through its acquisition of six group practices, and Piccolo plans to purchase at least a dozen more over the next three years. Caremark has also spent $70 million on information-software systems that will enable these doctor groups to operate more profitably. By yearend, revenues from physician management should reach $500 million, or 20% of revenues.

Physician management has potential. Squeezed by managed-care programs that shift costs out of hospitals and into doctors' offices, physicians are turning to companies such as Caremark for equipment, offices, and information technology. But establishing physician networks is expensive. To raise money, Piccolo is selling assets. In January, he sold Caremark's home-infusion unit for $310 million. Also gone are the assets of Clozaril, a patient-management business, which Piccolo sold in February for $34 million. He's even eyeing the sale of Caremark's $1 billion drug-distribution unit. "We're not actively seeking a buyer [for the drug unit], but we would give it careful consideration if we got an attractive offer," says Thomas W. Hodson, Caremark's chief financial officer.

With the federal investigation behind it, a considerable weight has been lifted from Caremark's shoulders. Now, the old linebacker is rarin' to fight.

By Ron Stodghill II in Northbrook, Ill.

PAIN Piccolo, who had vowed to vindicate Caremark of charges that it paid kickbacks, agreed to $159 million in fines and damages

BANKING

LEANER ISN'T ALWAYS MEANER

Cost-cutting alone won't protect banks from takeovers

Cost-cutting has been the mantra of bank CEOs for the past several years. Get expenses down, they have figured, and investors will push their stock prices out of the reach of acquisitive rivals.

But wielding a budget ax can only get a bank so far. Just ask First Fidelity Bancorporation CEO Anthony P. Terracciano: On June 19, he agreed to let First Union Corp. in Charlotte, N. C., acquire his bank in a $5.4 billion transaction—the biggest bank deal ever.

AN EDGE. During his tenure at Newark (N. J.)-based First Fidelity, Terracciano slashed costs and streamlined operations. But after fixing the bank, he had little to spend on new products that could give First Fidelity an edge with customers. The result: the sale to the more innovative First Union, led by Edward E. Crutchfield Jr.

DEAL: *Crutchfield and Terracciano*

It's a story that will be repeated. Dozens of regional banks, including Michigan National and Shawmut National, have tied their hopes to cost-reduction and little else. Now, absent competitive products and services, many regionals are being eyed as takeover candidates. "This [deal] is going to open up some floodgates," says James McCormick, president of First Manhattan Consulting Group Inc.

First Union represents a new banking paradigm—a focus on clearly defined customer groups combined with the financial heft to invest to stay competitive. First Union, for example, actively develops products, such as mutual funds and capital-markets services, designed for its core customers: consumers and businesses with sales under $250 million. Crutchfield already is thinking about more acquisitions. He calls the Northeast "a fat, juicy target for deals."

For bank CEOs, merely slashing costs just isn't enough anymore.

By Kelley Holland in New York, with David Greising in Atlanta

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SHOOTING IN BUDAPEST: *The promo alone cost some $10 million*

MUSIC

A MICHAEL JACKSON THRILLER FOR SONY

It's placing a $40 million bet on the return of The Gloved One

If nothing else, Sony proved once again that it knows how to spend money. From the 30-foot inflated Michael Jackson statue that loomed above Tower Records on Hollywood's Sunset Strip to the mammoth electronic sign blinking over Times Square, it was hard to miss the June 20 launch of the latest album by the music industry's self-styled King of Pop. To critics, the album is alternately brilliant and bloated. But to Sony Records, which waited nearly four years for it, *HIStory* may be one of the least profitable best-selling albums ever released.

In all, Sony Corp.'s Epic Records unit says it spent $30 million to launch Jackson's double-CD offering. That dwarfs the average $2 million a record company might spend to promote a Madonna, Rolling Stones, or Aerosmith release. But industry observers say the total Jackson rollout tab, including his music video with sister Janet Jackson for the song *Scream*, may well run closer to $40 million. Add in the estimated $10 million it cost Jackson to produce the 30-song album, and the moonwalking superstar is in a spending orbit all his own.

Epic shipped 2 million copies of *HIStory* initially and has told trade publications it expects to sell 20 million in all. Because Jackson has pledged royalties from some of his earlier albums against the costs of making *HIStory*, Sony's breakeven point on his latest could be as little as 5 million copies, say rival record executives. But even that number may be hard to reach, according to one longtime record executive, given the hefty $32.98 price tag and the public dissatisfaction with Jackson's bizarre looks and the child-molestation allegations against him. Adds Irma Zandl, head of New York-based youth marketer Zandl Group: "He seems to have peaked out, stayed in some sort of freeze frame, and kids recognize he's no longer a musical trend-setter."

Then there's the deal Sony signed with Jackson in 1991. His contract gives him a 21% royalty rate and an unprecedented 50-50 profit split with Sony. "That probably won't be much of an issue anyway," snipes one rival record exec, "because there won't be any profits."

Still, Sony and the Jackson team have mounted an impressive marketing campaign. The campaign includes 1,000 trailers in movie theaters, print ads in *USA Today*, *Us* magazine, *Entertainment Weekly*, and TV spots on morning news shows. "Listening parties," where local radio executives munched on hors d'oeuvres while listening to Jackson's music, were arranged in 11 cities around the country. The cable music channel VH1 Networks staged a Michael Jackson week, with videos and specials, and Jackson is scheduled to appear during its June 22 VH1 awards show.

TIGHTLY SCRIPTED. By the time 6 million people saw Jackson and wife Lisa Marie on Capital Cities/ABC's *Prime Time Live* on June 14, everything about the campaign seemed scripted. Down the road, there's more scheming. As many as seven videos and nine singles will be released to radio stations. An HBO special is planned along with an international tour sometime next year.

Early indications are that the media blitz is working. Tower Records in Hollywood sold 250 CDs within hours of its midnight release. At Sam Goody on Sixth Avenue in New York, sales clerks were busily restocking during the day. "As long as he is producing good music, I'm going to buy his stuff," says Brian Teta, a 19-year-old from Long Island who used his lunch hour to pick up the new CD. By most accounts Jackson could set a record for the most albums sold in a single week, beating the 1.3 million Guns 'N Roses set in 1991 for its double-CD *Use Your Illusion I & II*. Jackson also may lead the *Billboard*'s Top 200 list.

Whether the Jackson marketing team can keep the sales rolling is another story, however, especially in the wake of such issues as the anti-Semitic language used in his song *The Don't Care About Us*. Money can buy market share. But it may not be able to overcome a superstar who seems destined to add the title of super-spender to his already bizarre list of accomplishments.

By Ronald Grover in Los Angeles, with Cindy Webb in New York

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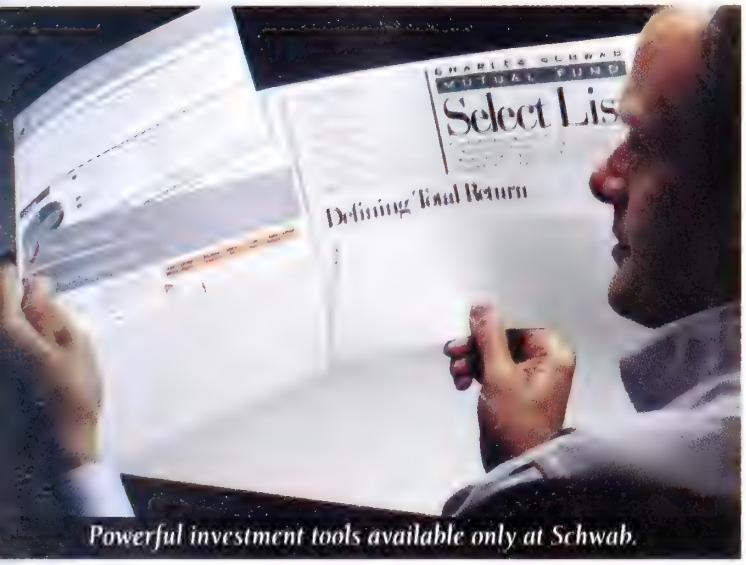

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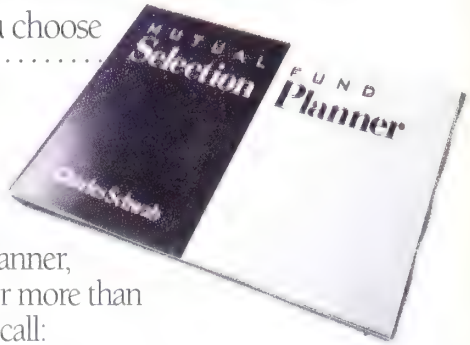

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EDITED BY THANE PETERSON

STATION BREAKS FOR NORMAN LEAR

TV MOGUL NORMAN LEAR, 72, continues to dismantle his entertainment empire. Lear, the man who brought such characters as Archie Bunker, Mary Hartman, and the Jeffersons to American TV, announced on June 21 that he is selling eight Fox affiliates he has owned since 1986 for more than $500 million to ARBY Broadcast Partners II, a Boston buyout fund. The stations, located in secondary markets such as Buffalo and Greensboro, N.C., fetched a reasonably strong price of more than 11 times their $45 million in cash flow. In recent years, Lear also has sold 12 trade magazines. He still owns a theater chain, which his company says is not for sale, as well as a production company.

CLOSING BELL

AMAZON GRACE

It's two years since Boston Chicken soared 143% the day of its IPO. Now comes Rainforest Cafe, a jungle-theme restaurant in Bloomington, Minn. On Apr. 7, it floated 38% of its 4.6 million shares at $5. They've since topped $15, giving Rainforest an indicated market value of $65 million. Not bad for a company that should post sales of only $9 million this year. Investors bet the eatery's wild decor—live parrots and talking banyan trees—can be cloned: Six more are due to open by late 1996.

DATA: BLOOMBERG FINANCIAL MARKETS

A MARCHING TUNE AT WARNER MUSIC

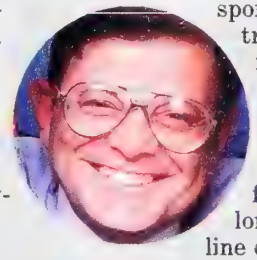
THE YEAR-LONG PERSONNEL upheaval at Warner Music Group claimed its latest victim on June 21, when newly installed chairman Michael Fuchs booted second-in-command Douglas Morris. "There has been too much tumult around here for a truly talented organization to do what it does best," says Fuchs, who contends that Morris had to depart in order for Warner Music "to reach its full potential." Morris, elevated to chairman of Warner Music-U.S. earlier this year, is the fourth top music exec to head for the door since last year, when longtime Warner Music-U.S. head Mo Ostin departed. Fuchs says Morris' departure has nothing to do with political controversy swirling around violent lyrics by rap artists on Warner's Interscope label. He also says he is planning no further executive cuts.

ROBERT BRENNAN IS FINED FOR FRAUD

MAYBE IT'S A LUCKY THING that onetime penny-stock mogul Robert Brennan was rebuffed in his offer to pay up to $80 million for the New Jersey Devils hockey team in early June. He may have another use for the money. On June 20, Brennan and his defunct brokerage house, First Jersey Securities, were fined at least $71.5 million by a federal judge in New York who ruled that the firm operated a "massive" fraud on thousands of customers who bought the outfit's low-priced stocks in the 1980s. Lawyers for Brennan say he'll appeal the fraud decision by Judge Richard Owen. They say the matter could be tied up in court for years.

HEADLINER: JOHN POMERANTZ

HEMMED IN AT LESLIE FAY



Since January, 1993, Leslie Fay chief John Pomerantz, 61, has presided over an accounting scandal, a bankruptcy filing, an exodus of top executives (including his wife, Laura), and a 31%, two-year dive in revenues, to $535.3 million in 1994. Shares have fallen from nearly 13 to a recent 13/32.

But Pomerantz still has his job. To the surprise of the retailing industry, which had speculated that the company would soon liquidate, Leslie Fay announced on June 19 that it expects to emerge from bankruptcy later this year. Attempts were made to find a buyer for the maker of Leslie Fay dresses and Outlander sportswear, but the troubled company was unable to close a deal. Rebuilding may be a stretch. Macy's, for instance, no longer carries its line of sportswear, and apparel sales have been sagging with the economy. Pomerantz will draw an $800,000 salary for trying, but has agreed to forgo a $1.5 million "success fee" he was originally to have collected under his employment contract.

By Elizabeth Lesl

P&G'S PRODUCT LOAD GETS LIGHTER

ED ARTZT IS DOING A LITTLE last-minute house cleaning before he retires from his post as Procter & Gamble's CEO at the end of June. On June 20, P&G announced plans to divest Fisher Nut and Bain de Soleil sun-care products, both acquired in the late 1980s, as well as about eight other small brands. Together, the businesses account for less than $160 million of P&G's $32 billion in sales.

BANCO LATINO SUES FOR DAMAGES

CONTINUING FALLOUT FROM Venezuela's banking crisis: On June 19, Banco Latino, the nation's second-largest bank, filed suit against its former President Gustavo Gome Lopez and 33 others, inclu ing other former directo and officers. The 170-pa suit alleges that the defe dants contributed to t bank's 1994 collapse by e gaging in "massive fraud a racketeering." The ba which lost $2 billion in a c sis that led to the collapse more than half of Venezuel domestic banking industry, seeking about $700 million damages. Gomez-Lopez h denied any wrongdoing.

ET CETERA . . .

- Sprint, Deutsche Teleko and France Telecom were s to ink a partnership accor
- Hoffmann-La Roche w hold a lottery and give a n AIDS drug to 2,280 patient
- Snapple Beverage's sal are off 15% in the six mont since Quaker Oats bought
- June 21 marked the fi anniversary of the UAW Caterpillar strike.

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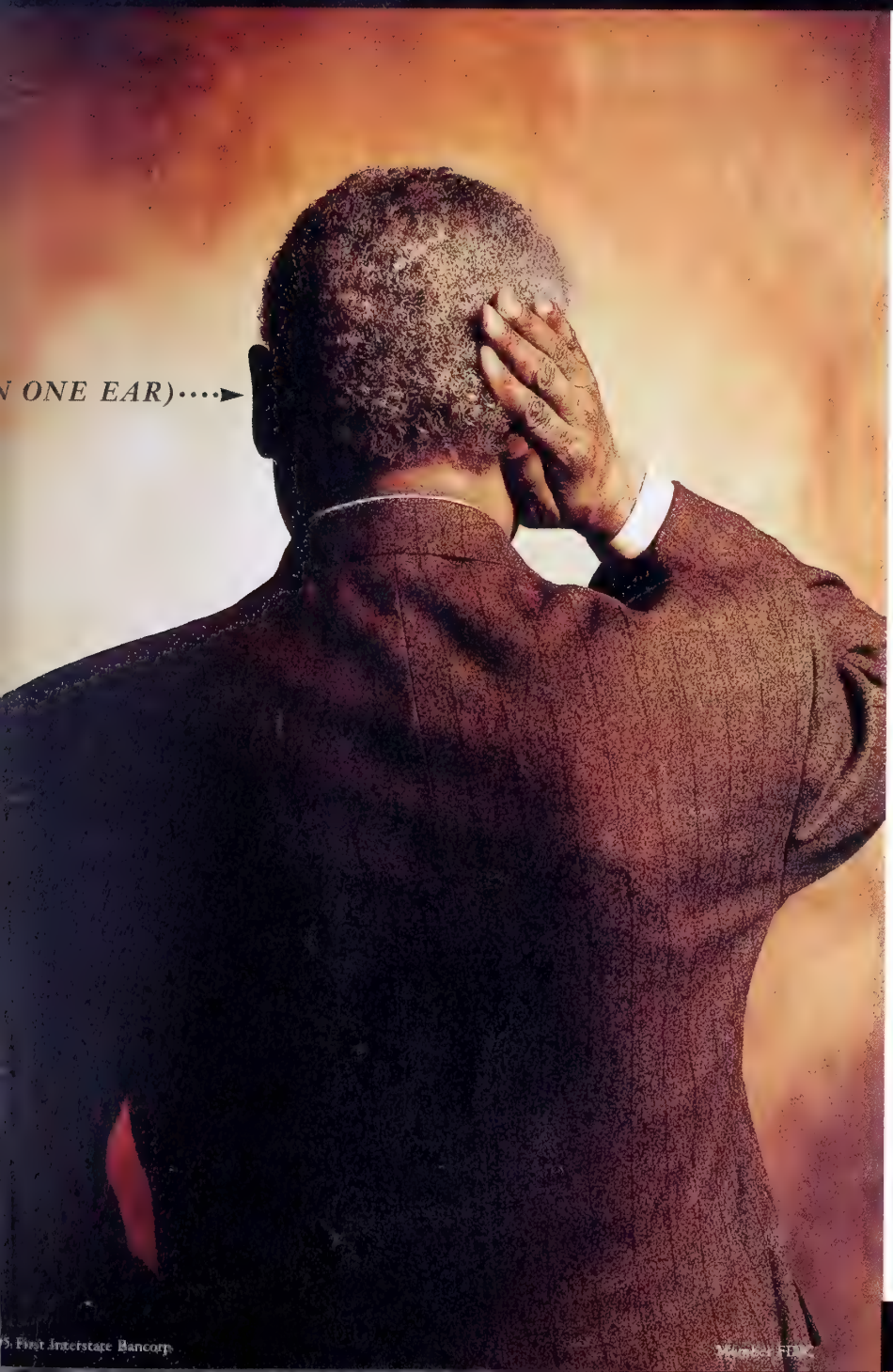

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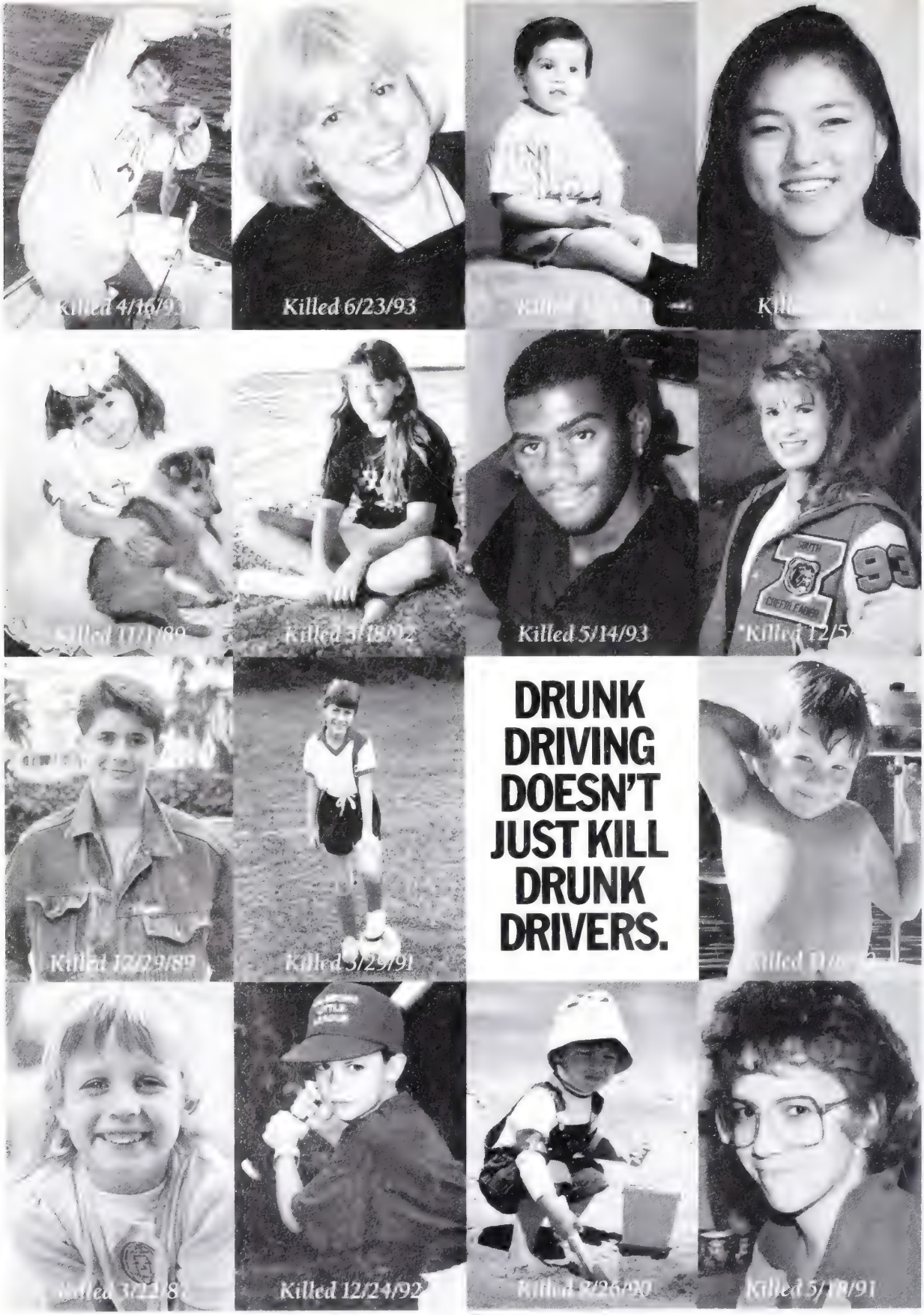

If you don't stop your friend from driving drunk, who will? Do whatever it takes.

FRIENDS DON'T LET FRIENDS DRIVE DRUNK.

Ad Council

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U.S. Department of Transportation

DITED BY DOUGLAS HARBRECHT

THE COMMERCE DEPT. HAS A CHOICE: REINVENT OR DIE'

on't turn off the lights at the Commerce Dept. just yet. True, Commerce in its present form is probably a goner. Republican budget hawks in both houses have targeted e $4.2 billion-a-year agency for the ax. But a rearguard efrt to turn Commerce into a lean, mean trade agency is iietly gathering steam with GOP moderates on Capitol Hill d in corporate boardrooms.

For now, Commerce Secretary Ronald H. Brown is sticking iblicly to an "all or nothing" strategy. But on June 21, Depy Secretary David J. Barram told 25 top department officials start planning for a 30% budget cut. aced with intense political and public ipport for downsizing, "it's reinvent or e," says a top Administration official.

OSING A VOICE. Business is finally realizg that life without Commerce may be ugh if the agency's trade-promotion proams are eliminated. "The governments Japan, Britain, France, Italy... aggresvely support their businesses overseas," ys Thomas S. Norwalk, president of iami Valley Marketing Group Inc., a nall-business export consulting firm. "We eed the same support from our governent to keep the playing field level."

BOND: *He'd rescue the trade functions*

And business is aghast that it may lose its Cabinet voice. When major decisions are made—about trade embargoes or articipation in trading arrangements—it is essential that .S. manufacturing interests be represented," says National ssociation of Manufacturers Vice-President Howard Lewis III.

Such sentiments are fueling a move to salvage trade funcons from the Commerce wreckage. It won't be easy. Budgetisters deride such programs as corporate welfare, but GOP oderates view them as vital. On June 19, Senator Christoher S. "Kit" Bond (R-Mo.) unveiled plans to create an Interational Trade Dept. out of Commerce's International Trade dministration and Bureau of Export Administration. "Trade is the key to our economy's future," says Bond. "If we toss in the towel right now, we can give up on the hope of remaining the world's most important economy."

In fact, business wants something grander: a Cabinet-level agency to oversee all federal export-promotion entities, including non-Commerce units, such as the Office of the U. S. Trade Representative and the Export-Import Bank. That idea of mimicking Japan's Ministry of International Trade & Industry has support from Senate Governmental Affairs Committee Chairman William V. Roth Jr. (R-Del.) and Representative Harold Rogers (R-Ky.), who chairs a House subcommittee that oversees Commerce.

But such ambitious schemes are probably pipe dreams. For one, U. S. Trade Representative Mickey Kantor opposes any merger with Commerce. In a June 15 letter, he argued that the USTR "currently benefits enormously from its small size and ability to shift resources quickly to pressing negotiations." And few believe a new Cabinet-level agency can be created in the current budget-cutting frenzy.

So Brown will have to act. Indeed, on June 14, a day after Clinton unveiled his 10-year deficit-reduction plan, Vice-President Al Gore and key staffers met to discuss ways to reinvent Commerce. Dismantling the agency entirely could save $7 billion over five years, the GOP says. The likely outcome? Chunks of the department, such as the Weather Service and Census Bureau, will be moved to other agencies, privatized, or killed. Existing trade, technology, and economic analysis units will live on in a smaller agency, perhaps under a new name. So Commerce's home, the Herbert C. Hoover Building, may survive after all—as the Ron Brown Trade Center.

By Amy Borrus

CAPITAL WRAPUP

BUFFETT BANK SHOT

▸ In a nod to Salomon Brothers Inc., the House has added a special "Warren Buffett" loophole to its version of the Glass-Steagall bank-reform bill. Buffett's Berkshire Hathaway Inc. holds a 21% stake in the investment bank. That could be a problem if Solly tries to enter the banking business under the new legislation. Why? Because Berkshire also is a major investor in the insurance business, and the reforms would still bar affiliations between banks and insurers. The new language would allow Buffett to keep his stake in Salomon without barring the investment firm from moving into commercial banking. Salomon Inc. Chairman Robert E. Denham says the House move is only fair. "Salomon would not be prohibited from doing what any other investment bank can do simply because of Berkshire Hathaway's holding," he explains.

TAXING TOKYO'S TRANSPLANTS

▸ As the U. S. and Japan struggle over auto trade, congressional trade hawks are turning up the heat on Tokyo. In a June 21 letter to Commerce Secretary Ronald H. Brown, Senator Ernest F. Hollings (D-S. C.) is urging that free-trade-zone status be denied to new Japanese plants opened in the U. S. The current 200 zones allow companies to import parts duty-free if their plants create enough jobs for Americans. Hollings also wants the Commerce Dept. to review existing transplants—including seven from Japanese auto manufacturers—and revoke FTZ status for any that are not meeting their job-creation requirements.

EUROPE

CONTINENTAL DIVIDE OVER EXECUTIVE PAY

American-style largesse is raising howls in Europe

It's an elegant setting for what's shaping up to be an ugly brawl. On June 26, shareholders of WPP Group PLC will gather in a marble-lined room overlooking the Thames at London's Savoy hotel. There, they'll vote on a pay package for Chief Executive Martin Sorrell that could give him up to $39 million over five years, depending on the performance of the ad-agency group's stock. It's the smart thing to do, according to Chairman Gordon Stevens: "We intend to make our CEO's package competitive with his rivals' in New York." Yet two big British investors who control about 9% of WPP's shares noisily oppose the plan. They say it's too greedy and just not right.

WPP isn't the only company under fire for narrowing the gap between U.S. and European pay. Critics are popping up across Europe, condemning this latest American import as inimical to the European view of fair pay and fair play. As politicians, labor leaders, and even investors and other executives jump onto the issue, executive pay could become a key part of the larger debate over how—or whether—European corporations should remake themselves to become more competitive with U.S. and Asian rivals.

DEFENDERS. Higher pay does have its defenders outside the boardrooms of Europe. "I think European executives should be paid more if their pay is linked to performance," says André Baladi, the Geneva-based shareholder activist. Total pay for European CEOs averaged $389,711 last year, compared with $819,428 for their American counterparts, according to Towers Perrin's 1994 worldwide total remuneration survey. Some corporate-governance experts also argue that Eurobosses deserve American pay levels since they compete internationally—and may even be lured away to take jobs with U.S. rivals. That's why more and more European multinationals are quietly introducing U.S.-style pay packages, complete with stock options and long-term incentives (chart).

Until recently, this upward creep in compensation hadn't caused much fuss. Bourses in most European countries, unlike U.S. exchanges, don't require companies to disclose details of executive pay. In Germany and the Netherlands, what the boss makes is still largely a non-issue. But in instances where CEO pay or perks have been revealed, the result has been cries of outrage.

The most intense clashes have occurred in northern Europe. Britain and Sweden now require companies to disclose more information about executive pay, which is on the rise. Yet pay packets for CEOs are getting fatter just when many workers are worried about unemployment. The result is a situation tailor-made for controversy.

PETER WALLENBERG
Chairman, Investor

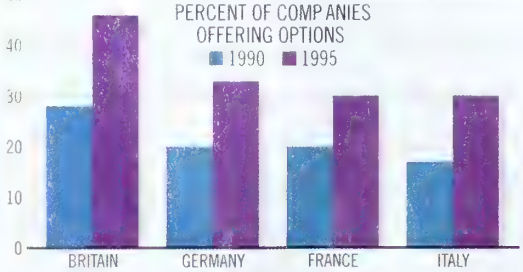
This Swedish industrialist got a **$1 million** consultant's fee from a company subsidiary in 1994, prompting local papers to dub him "The Greediest Man in Sweden"

Take Lars Ramqvist, CEO of L.M. Ericsson, the Swedish maker of telecom equipment. His company's pretax earnings soared 81% last year, and he received other lucrative job offers. This year, he got a 100% raise, which included three years' worth of bonuses. His pay reached $1.5 million—still less than the $1.98 million in salary and bonu Motorola Inc. awarded its chief, Gar Tooker.

Yet Ramqvist's pay raise angere Swedes, including some fellow capita ists. "In a period when we're calling fo general wage restraint, it's offensive t allow people already well paid to mov that fast along the ladder," explains Le Vindevag, the Stockholm Stock Ex change's research head. Meanwhil Sweden's deputy prime minister has a cused Asea Brown Boveri Chi Executive Bert-Olof Svanholm, a well as other executives, of actin like "spoiled children" in demand ing hefty pay hikes.

Fat pay plans also offend man in France. Former Prime Ministe Edouard Balladur lost suppor during the presidential electior because in 1993, he cashed i stock options acquired as a to executive at computer consultar GSI. Although the transaction wa

MORE CEOs GET STOCK OPTIONS



DATA WATSON WYATT DATA SERVICES

CLAUDE BEBEAR
Chairman, AXA

This French insurance executive has some **1.2 million options worth up to $27 million** aftertax, as well as base pay of $1.5 million

CEDRIC BROWN
CEO, British Gas

The utility chief got a 76% raise, to **$760,000,** in 1994. Workers, facing 25,000 layoffs in a cost-cutting move, protested at the May annual meeting

MARTIN SORRELL
CEO, WPP Group

Adman Sorrell has a pay plan worth up to **$39 million over five years.** Some institutional investors are fighting it

LARS RAMQVIST
CEO, L.M. Ericsson

This telecom equipment exec got a 100% hike in 1994. Total pay: **$1.5 million.** Socialist Swedish politicians are outraged

DATA: COMPANY REPORTS; BUSINESS WEEK

gal, his opponents used it to attack alladur, who had urged the French to ghten their belts during the recession. Politicians in Britain are using pay kes to their advantage, as well. British as PLC recently awarded CEO Cedric . Brown a 76% salary increase just the privatized utility was in the midst a program to shed 25,000 workers. At e company's annual meeting in late ay, union members trotted out a 350-ound pig named Cedric in protest. rown got his raise approved. Not surisingly, the Labor Party used the incient to criticize the Conservative govnment's policy on privatization.

In France, Senator Jean Arthuis, now inister for economic development, elped draft a May report on stock opons that called for a code of conduct to noralize" the system. The report conudes that France's murky stock-opon system has led to "fraudulent beavior." French tax authorities, for xample, believe that some insiders at closely held companies have pumped up the value of their stock shortly before exercising options. And in Italy in coming weeks, prosecutors will examine whether scores of top Fiat executives were paid under the table to skirt taxes.

CLOSER SCRUTINY. The flaps over executive pay are generating cries for closer scrutiny. In France, Claude Bébéar, chairman of French insurance giant Axa, owns 1.9 million options. Bébéar could exercise some 1.2 million now, which would come to a $27 million aftertax profit based on Axa's recent price. The company justifies this deal because Bébéar has transformed Axa from a provincial insurer into a global giant. Some 300 Axa executives have options.

Bébéar's option plan is public knowledge because Axa's purchase of U.S.-based Equitable Cos. forced it to disclose his and other top executives' pay to U.S. regulators. With no such requirements in France, "how can shareholders be unhappy if they don't know what they're unhappy about?" wonders Sophie L'Hélias, president of Franklin Global Investor Services, a Paris-based corporate-governance consultant. Though French companies are starting to reveal more salary information, she and others are pushing for fuller disclosure of executive stock options and pay.

Peter Wallenberg, chairman of Sweden's Investor, came under fire earlier this year when his company's annual report used a footnote to disclose a $1 million consultancy fee he had received in addition to his pay and bonus as a director. Even though his 1994 compensation was well below that of comparable U.S. executives, the foggy disclosure upset small shareholders. Institutional shareholders weren't disturbed. Still, Investor now requires that shareholders vote on directors' pay at the annual meeting, and it has banned consultancy fees outright.

Britain is going much further. This July, a committee headed by Marks & Spencer Chairman Sir Richard Greenbury is expected to recommend that companies phase out the now-popular use of executive stock options, replacing them with incentives such as bonuses linked to long-term performance.

With the Greenbury report pending, executive-pay consultants say their British clients are adopting wait-and-see attitudes. Even WPP, fearing a close vote, may renegotiate parts of Sorrell's package. Nobody wants a publicity fiasco like the British Gas uproar. "Defensible positions are becoming much more important," explains David H. Rhoads, managing director of the London office of Strategic Compensation Associates. For instance, Boots Co., the British pharmacy chain, explains at length in this year's annual report why it's phasing out options and how it set compensation levels for its top managers.

Outside Britain, most of Europe's bosses can still cherish the secrecy that cloaks their compensation—and protects them from having their employees name pigs after them. But as greater disclosure becomes the norm, European CEOs better be ready to defend their pay with superior corporate performance.

By Julia Flynn in London, with Farah Nayeri in Paris and bureau reports

LONDON

ALL ROADS LEAD TO THE CITY OF LONDON

Despite takeovers by Eurobanks, it's more than holding its own

For the city fathers who watch over London's square-mile financial district, it has been a traumatic six months. In March, administrators sold 230-year-old Barings PLC to Dutch-owned Internationale Nederlanden Groep, after Barings suffered $1.4 billion in derivative trading losses. Then, Britain's largest merchant bank, S. G. Warburg Group, in May agreed to become a subsidiary of Swiss Bank Corp., after Morgan Stanley & Co. dumped Warburg at the altar. Now, Kleinwort Benson Group is ready to give up its independence, having entered into merger talks with Germany's Dresdner Bank. As Britain's proud merchant banks fall into the clutches of better-capitalized European rivals, London looks like a big loser.

1994	VALUE OF SHARES TRADED BILLIONS	COMPANIES LISTED	MARKET CAPITALIZATION BILLIONS
NEW YORK	$2,618	2,570	$4,341
LONDON	1,060	2,534	1,239
TOKYO	895	1,782	3,670
FRANKFURT	664	650	510
PARIS	213	1,303	461

DATA: LONDON STOCK EXCHANGE

Look again. London's role is growing, not shrinking, as the preeminent center of Europe's financial services industry. Although the Frankfurt and Paris exchanges are expanding as the German and French securities markets open up, Continental banks are pouring billions into London to tap the pool of talent they need to compete as worldwide investment banks. Their hope is that the combination of British expertise and European deep pockets will put London in a position to challenge New York's global role.

Europe's investment banks are rapidly consolidating to take advantage of an increasingly open market. A European Union directive, effective on Jan. 1, 1996, will allow EU investment houses to trade freely across borders, no matter what country they're domiciled in. In the U. S., meanwhile, the Glass-Steagall Act, prohibiting commercial and investment banking under the same roof, is breaking down, making it easier for European merchant banks to take business away from the big New York investment banks that make up the first tier of the industry.

Today, only five independent merchant banks and a handful of independent brokers are left, but the City of London, as it's known to locals, is home to more than 500 foreign banks. Greater London's financial services industry now employs more than 600,000 people—about equal to the entire population of Frankfurt. And 40% of London's back-office clerks, research analysts, and floor traders have foreign employers.

London boasts the world's largest center of forex trading, with some $300 billion in volume daily. It handles the lion's share of the $440 billion Eurobond business. And London is the world's biggest hub of cross-border equity trading and bank lending. Its futures and institutional fund management businesses are Europe's largest.

Why London? The forces began building decades ago, when banks had to be near one another because communication was difficult and traders didn't want to be out of the loop for price-sensitive information. In addition, Britain's tradition of openness to foreign investment, its large pool of experts, and the liquidity of its forex, futures, and equity markets have always been magnets.

Ever since deregulation in 1986, many observers have predicted that modern telecommunications would erode the individual powers of New York, Tokyo, and London, as 24-hour trading grew easier. The voices of doom in Londo got louder when august institutions su fered recurring scandals and misstep such as the early 1990s collapse of th Bank of Credit & Commerce Interna tional and the Robert Maxwell empir The recent Barings debacle seemed t confirm their predictions.

But the City's downfall never cam In fact, more financial clout is now co centrated there than ever before. I just the past two weeks, Dresdner, An sterdam-based ABN-Amro, and Ge many's WestDeutsche Landesbank hav all announced intentions to move inves ment banking operations to Londo Their decisions follow a similar mov in December by Deutsche Bank, whos 1989 acquisition of Morgan Grenfell Co. made it one of the first Continent banks to acquire a London merchar bank. Now, Deutsche Bank is usin London as its base for building a glob investment bank, with its sights s squarely on New York. Japanese an American banks are also making Lo don their European headquarters.

FANTASIZING. But the City still can't a ford to sleep. For one thing, Britain's r luctance to join in the fitful march t ward monetary unio and a single curren in Europe coul threaten its premie role in currency tra ing. And Paris an Frankfurt also war to build financial di tricts. Already, Lo don has lost out t Frankfurt in the bi ding for the covete European Monetar Institute, which wi become the EU central bank once mon tary union occurs.

But even the EU central bank wi have to execute its monetary policie through London currency traders, wh aren't about to get relocated by thei employers. London's masses of fore traders make recruitment and trainin easy there. And in a new survey by th London Chamber of Commerce, foreig banks said the quality of telecommunic tions was their No. 1 reason for locatin in London, just above the workforce.

That's why the city fathers aren complaining about the increasingly no British character of London's financi services. Other European cities hopin to bump London from its perch an time in the next few decades are onl fantasizing. A bigger problem is to r lieve the City's congestion at rush hou

By Paula Dwyer in Londo

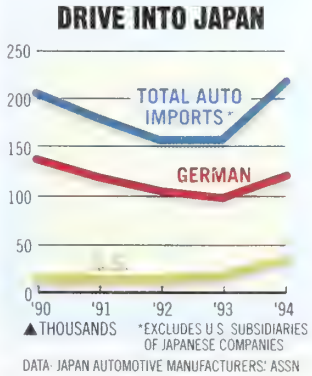
VHEN IN JAPAN, 00 AS THE GERMANS DO

heir secret to selling cars: Invest big and persevere

or Yoshikazu Yoshioka, a 45-year-old IBM manager in To-o, it's time to trade his two-year-old BMW 5i convertible. He n't make up his mind nether to buy another IW or switch to a eek new Mercedes-enz. But Yoshioka is re about one thing: 'm not even thinking out an American car." With the June 28 adline for U.S. trade nctions aimed at open-g up Japan's auto arket fast approach-g, U.S. auto makers uld take a lesson: Jap-ese consumers are ying German cars for od reason. Over the st 15 years, German to makers have spent ndreds of millions to ild up dealer, supply, d service-support net-orks in Japan. They've lapted their cars to panese tastes. As a sult, German carmak-s have commanded ore than 50% of the market for im-orted cars since 1981—and in some ars as much as 80%.

G SPENDER. Mercedes alone has spent 55 million since entering Japan in 81. In 1992, Volkswagen Audi Nip-on completed a $320 million import fa-lity on a deepwater port. The opera-on, which includes an inspection center, parts warehouse, and a training cen-r, can process 100,000 rs a year—a goal the mpany expects to ach by 1999. Altogeth-, German auto makers ve invested nearly $1 llion in Japan, while merican spending on pport facilities is esti-ated at just $120 mil-on, with $100 million ming from Ford Mo-r Co. alone. As a re-lt, each of the German big three"—Mercedes, BMW, and VW Audi—now sells about 30,000 cars a year in Japan.

That is more than twice as many as any U.S. auto maker, although America's Big Three have also recently made inroads in Japan. Aggressive moves by Ford—including competitive pricing and a major advertising campaign—plus Chrysler Corp.'s success selling a right-hand-drive Jeep Cherokee boosted U.S. share from 9.3% to 12.4% of the import market in Japan in 1994. That helped slash 6.2 points off the German auto makers' share, making it 55.2% in 1994. But since the overall market for imports is rising, German unit sales rose, too (chart).



And those sales are highly lucrative, even at low volumes. Because BMW charges more for its cars in Japan, its profit margin is two to three times higher than in Germany, says Lehman Brothers Inc. Japan auto analyst Koji Endo. The most profitable dealerships last year in Japan were those run by BMW and Mercedes.

That's despite the fact that prices are falling. In 1994, Mercedes dropped the cost of its E series cars by $7,300 on average. The sticker price now ranges from $68,640 to $117,160, depending on the model. In February, BMW moved to widen its customer base, debuting a new 318ti compact for about $35,500. The company also offered a flat-fee, three-year service contract on any new car, including parts. "Before, our customers were all company presidents and rich people," says Fumiko Hayashi, manager of a BMW dealership in Tokyo. "Now, we see more families and salaried workers."

ATTENTIVE. Those customers still expect first-class treatment, however. "Even if there's no problem, we have to call now and then and ask, 'How's it going?' Otherwise, they think we're cold and uncaring," Hayashi says. Service and sales trainees spend a year at the BMW Academy, gaining specialized knowledge about the company's autos and parts. That can benefit the bottom line. At BMW, service centers generate 10% of revenues in component sales alone.

As the import market in Japan grows, the race will be on to attract new dealers. The German auto makers aren't wasting any time. VW Audi, for example, has expanded its dealer network from 18 outlets in 1991 to 176 today, and it aims for 200 by the end of the year. Its massive investments in the market help. "[Dealers] wonder how serious we are. The import center shows our commitment," says Volkswagen Audi manager Minoru Shimizu.

BUY AMERICAN? *Yoshioka won't even consider the option*

To be sure, the German auto makers also do their share of complaining about the Japanese market. But they take a more philosophical approach than their rivals in the U.S. "Even a nontariff barrier [is] a real barrier," says Hideo Hohgi, BMW's director of operations. "But nowhere in the world is completely free."

Still, the German auto makers seem determined to hang on to their niche in the Japanese market—and to invest the yen necessary to keep their sales growing. As the U.S. prepares to slap $5.9 billion in tariffs on Japanese luxury auto imports, in a bid to open up Japan's market to more American cars and parts, U.S. companies should consider just what it takes to succeed.

By Edith Hill Updike in Tokyo

arah knows a lot about diabetes. She knows because S she has it. But she doesn't know that Eli Lilly and

ompany developed the medicine she takes every day. Or that we keep her doctor up-to-date about the findings

f health care professionals all over the world a who treat kids just like her. Why should she?

he's busy just being a seven-year-old. If the last 119 years have taught us anything, it is simply this: knowledge is

owerful medicine. So, while we continue our search r for innovative medicines, Lilly is also pioneering

ays to use information technology to improve health care. We're collecting, analyzing, and sharing infor-

ation with thousands of health care providers a and patients. And we're leading the search for

etter, more affordable treatments, preventions, and cures—so people can live healthier, more active lives.

Meanwhile, for Sarah, Lilly may be only the name h on her medicine...and that's just fine with us.

Lilly

Eli Lilly and Company

KNOWLEDGE IS POWERFUL MEDICINE

EDITED BY STANLEY REED

AS YELTSIN TOTTERS, CHERNOMYRDIN IS STANDING TALL

Russian television viewers recently witnessed an extraordinary spectacle. First, an apparently tipsy Boris Yeltsin flashed on their screens from the Group of Seven confab in Halifax. Gesturing wildly, Yeltsin sputtered inaccurate statements on the Chechen situation and admitted ordering the botched attacks that killed at least 30 Russian hostages in the city of Budyonnovsk. The next day, the TV networks showed a grim-faced Prime Minister Viktor S. Chernomyrdin, 57, negotiating the release of the remaining hostages. "It was Chernomyrdin who became the real head of state," says Andrei Piontkowsky, head of the Moscow Center for Strategic Studies. "Yeltsin abstained from that responsibility."

In the political aftershock of the crisis, one message is clear: Boris Yeltsin's era is drawing to an end. The man who bravely crushed communism four years ago and dragged Russia into a market economy is tired and spent. His political clock is winding down—though he does not seem to realize it. The State Duma underlined the point on June 21 when it passed a no-confidence vote in his government—the first ever.

FREE AT LAST: *Former hostages rejoice*

FADED STARS. For the time being, Chernomyrdin is Yeltsin's only logical successor. His stature is likely to grow as a deeply divided Kremlin faces coming legislative and presidential elections. Chernomyrdin's cool handling of the hostage crisis has given him a big boost over the Kremlin faction known as the "Party of War." These military and intelligence chiefs pushed Yeltsin into the disastrous raid and the bloody Chechen invasion and now look foolish.

Another factor in Chernomyrdin's favor has been the self-destruction of other reformers. The young stars of a couple of years ago, including former economic czar Yegor T. Gaidar, former Finance Minister Boris G. Fedorov, and liberal economist Grigory A. Yavlinsky, were trounced by Vladimir Zhirinovsky's ultranationalists in 1993. But they don't seem t have learned from that defeat. Their egos are still too big fo them to be able to work together.

That leaves it up to Chernomyrdin, former head of th state gas monopoly Gazprom, to take on the extremists an the former communists, who are effective campaigners. Che nomyrdin and his centrist backers have formed a new part called "Our Home is Russia." Backed by Russia's powerful en ergy lobby and the new banks, such as Imperial Bank, tha serve it, the party represents a monied crowd that has ben efited enormously from privatization.

Zhirinovsky sarcastically dubs th party "Our Home is Gazprom." But has the financial backing and savvy t be a strong factor in the December pa liamentary races and the June, 199 presidential contest—especially if Che nomyrdin decides to run.

A Chernomyrdin-led governmen would probably be the most favorabl for foreign business. He favors integra ing Russia's economy with world ma kets and wants foreign investment fo energy projects and other deals. By co trast, the young reformers are too disorganized to deliver, an Zhirinovsky, the ex-communists, and the hardline defens chiefs all want to reinstate big chunks of the Soviet systen

While Chernomyrdin seems to hold the best cards, th result of the coming power struggle is far from certain. Th military and police heavies remain dangerous, and Yeltsin sti has enough power to do damage. Jealous of Chernomyrdin, h might even seize on the no-confidence vote as a pretext t dump the Prime Minister. But, as *Izvestia* political analys Stanislav Kondrashov notes, Yeltsin probably realizes h would lose more than he would gain from such a move. An it might open the way for someone much worse.

By Peter Galuszka in Mosco

GLOBAL WRAPUP

CHINA PUNISHES TAIWAN

▶ China, which was angered by Taiwan President Lee Teng-hui's recent high-profile visit to the U. S., has suddenly decided to take out its wrath on the island. China's leaders have suspended negotiations on improving relations with Taiwan. That helped to send the Taiwan Stock Exchange plummeting to a 15-month low. Taiwanese executives are now complaining that they are experiencing unusual hassles at Chinese customs, and they also fret that Taiwan's plan to allow direct shipping across the Taiwan straits—which has already been stalled for more than a month—could face further setbacks.

Taiwan's largest investors in China are leaning on the government to cool things down. Many have been spooked by a popular book entitled *T Day*, which prophesies a mainland invasion as early as August, 1995. But still more tension may be on the way. The Nationalist government in Taiwan is readying a new drive for U. N. membership—another hot button for Beijing.

THE MILITARY TROUBLES CHILE

▶ The refusal of a former military intelligence chief, Manuel Contreras, to accept punishment for his role in a 1976 assassination is undercutting the democratically elected government of President Eduardo Frei. Another general has gone to jail, but Frei can' be sure there won't be trouble from the military if he tries to force Contreras into prison. The standoff could hurt the Clinton Administration's efforts to bring Chile into the North American Free Trade Agreement.

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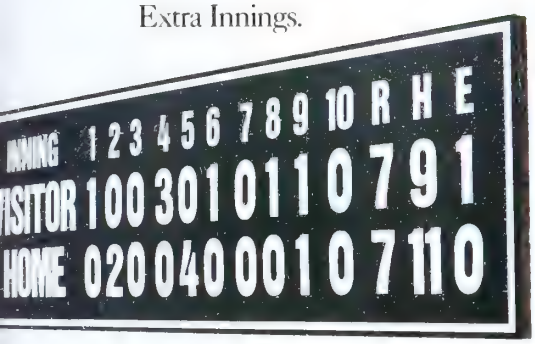
Extra Innings.



INNING	1	2	3	4	5	6	7	8	9	10	R	H	E
VISITOR	1	0	0	3	0	1	0	1	1	0	7	9	1
HOME	0	2	0	0	4	0	0	1	0	7	1	1	0

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The New Accord V-6 Sedan HONDA A Car Ahead

ord EX V-6 Sedan model shown and described.

CORPORATE CLOUT

A THINK TANK WITH ONE IDEA: THE NEWT WORLD ORDER

Companies are scrambling to support the nonprofit Progress & Freedom Foundation

Newtonian Logic

The Progress & Freedom Foundation's stands on policy issues:

BUDGET Proposes slashing federal government spending to 15.7% of GDP by 2002, compared with 21.8% today. Advocates ending block grants for social programs after 2000.

TELECOMMUNICATIONS Recommends replacing the Federal Communications Commission by late 1996, with a smaller office.

MEDICAL LICENSING Pushing for transfer of Food & Drug Administration safety and efficacy testing to private organizations.

URBAN RENEWAL Plans to launch an urban demonstration project in Washington this summer, where government assistance would be replaced by business and nonprofit support.

POWER PALS: *E[illegible] was an obscure Be[illegible]way policy wonk scratching for funds when Gingrich became Speaker*

Ideas may indeed move armies. But not that easily in Washington, where think tanks are as common as coffee bars. Just getting heard is a victory, when you're competing with well-heeled fonts of wisdom such as the Brookings Institution, the American Enterprise Institute, and the Heritage Foundation.

But as quick as you can say "Newt Gingrich," the upstart Progress & Freedom Foundation has bullied its way onto center stage—and is being heard. Flush with corporate cash, it's pumping out policy prescriptions for dumping the Federal Communications Commission, axing federal block grants, and privatizing safety and efficacy reviews of prescription drugs and medical devices.

There's no trick to PFF's success: It has benefited mightily from a cozy relationship with the Republican House Speaker, and access-hungry corporations are giving generously. Critics decry the group as a tax-exempt arm of Gingrich's political empire. And academic rivals dismiss its intellectual firepower. Still, Newt's favorite think tank is attracting cash and status. "There's no doubt we feed off the phenomenon," say 37-year-old Jeffrey A. Eisenach, PFF president. "And we feed the phenomenon."

Eisenach is a case in point. Last year, he was just another obscure Beltway policy wonk. Formerly executive director of a political action committee headed by Gingrich, GOPAC, Eisenach was selling a Third Wave conservatism that many dismissed as flaky. But when November's election catapulted Ging[illegible] to power, PFF became the darling th[illegible] tank of the Republican Revolution.

Since the election, times have [illegible] good. Revenues are expected to hi[illegible] million in 1995, putting PFF on the s[illegible] financial footing as seasoned groups [illegible] as the libertarian-leaning Cato Instit[illegible] For fiscal 1994, which ended Mar[illegible] 1995, PFF raised $2.2 million, up [illegible] $656,000 in 1993. And in the first t[illegible] months of 1995 alone, it tool[illegible] $866,000, with $650,000 in contribut[illegible] mostly from large corporate spons[illegible]

It's not just the fattened coffers [illegible] prove PFF's momentum. Lawma[illegible] have pored over three foundation p[illegible] papers released since May, and its [illegible] get recommendation, called *The* [illegible]

le's Budget, is sold in bookstores. By earend, PFF plans to publish four addi-onal books by Gingrich favorites such s Marvin Olasky, author of *The Trage-y of American Compassion*, and New ge philosopher Arianna Huffington. ales of books and videotapes soon will ake up 15% of revenues.

The group's intellectual focus is the ture: Unlike conservative groups that ndlessly critique failed federal pro-rams, PFF wants to ax those systems nd create institutions for the Informa-on Age. Its prescription for saving merica's inner cities, for example, is to ttison welfare and replace it with a rivate-sector model where nonprofit roups and businesses would coordinate rban economic development aimed at utting poor people to work.

O HEAVYWEIGHTS. The early scholarly ork at PFF, however, rarely diverges om the Gingrich party line. While me academics credit it for tackling ng-term problems, others say the roup lacks the intellectual depth of es-blished organizations. For example, rmer Minnesota Congressman Vin We-er—a long-time Gingrich pal—is a sen-r fellow writing about politics. "They n't have any heavyweight intellectuals board right now," says Robert W. randall, a senior fellow at Brookings.

Meanwhile, PFF is caught in a political restorm. Some Democrats charge that e group is a way for business and ealthy individuals to evade campaign-nance law donation limits while fun-eling more money to Gingrich. Charg-s Representative David E. Bonior (D-lich.): "That think tank was put gether to take care of Newt."

Indeed, PFF appears to have almost ngle-mindedly promoted the Speaker. uring its first 20 months, roughly 43% the group's $1.4 million budget went funding Gingrich's televised college cture series, Renewing American Civ-ization, and his cable television show, *rogress Report*.

In addition, Eisenach spent several onths in the offices of GOPAC while unching PFF. Much of that time was ent organizing Gingrich's college urse, which critics denounce as politi-l rather than academic. "The error ingrich made is to mistake education r indoctrination," says Robert Daw-off, chairman of the history depart-ent at the Claremont Graduate School California. The House ethics commit-e is probing whether Gingrich broke y rules by using nonprofit money to nd political activities.

The Speaker has been careful to dis-nce himself from the group. He doesn't rve on its board, nor is he on its pay-ll. "I haven't even met with their di-ctors," Gingrich told BUSINESS WEEK. In a December, 1993, Progress & Freedom newsletter, however, Eisenach wrote that the idea for the foundation emerged from "a series of conversations with my friend Newt Gingrich." But Gingrich aide Tony Blankley says that doesn't mean Eisenach or Gingrich have acted improperly. "Gingrich has lots of operations. But there are lines between them, and he's carefully advised about where those are. If Bonior thinks the lines are blurred, that's his problem."

Nonetheless, the Newt connection has lured policy wonks of all stripes as advisers to PFF. Former Health and Human Services Dept. Secretary Louis W. Sullivan, for one, chairs its medical innovation project. Such recruits see a rare chance to shape policy. "We're getting the ear of people on Capitol Hill who really matter," says American Enterprise Institute scholar J. Gregory Sidak, who worked as an adviser on PFF's FCC study.

Business is willing to pay for that kind of access, too. "There's no doubt Newt helps with fund-raising," says C. Boyden Gray, White House counsel to President Bush. Donations overwhelmingly came from companies in telecommunications and medicine, areas where PFF is crafting bold deregulation plans. Corporate donors include AT&T, Bell Atlantic, Bristol-Myers Squibb, Coca-Cola, Eli Lilly, and Marion Merrell Dow. The average gift was $15,800—far more than the $5,000 political action committee limit permitted by law to go to the Gingrich campaign. "We recognized that Progress & Freedom had important links to the new Congressional leadership," says Lisa J. Raines, lobbyist for Cambridge (Mass.) drugmaker Genzyme Corp. "It's important to participate in their deliberations."

SAFE NICHE. In some areas, business already is getting its money's worth. On May 30, the foundation released a study proposing to ax the FCC and replace it with a far smaller White House office. In addition, PFF proposed selling all unassigned radio spectrum to the private sector. After working with Representative Jack Fields (R-Tex.), chairman of the House subcommittee that oversees the FCC, PFF staffers expect legislation based on their research this summer. Says Fields: "The study was excellent. It really framed a lot of issues for us."

Still, the real test of a young think tank is how it performs when its reason for creation fades. The Heritage Foundation, for one, has managed to thrive in post-Reagan Washington by carving out a conservative niche that often tweaked George Bush. But if Gingrich vanished overnight, even Eisenach admits that PFF's voice would dim quickly. That's not a ringing endorsement for a think tank, especially when being heard is half the battle.

By Mary Beth Regan, with Richard S. Dunham, in Washington

Washington's Brain Trusts

ORGANIZATION	ORIENTATION	EMPLOYEES	'94 REVENUES
AMERICAN ENTERPRISE INSTITUTE	Conservative	120 total; 45 resident scholars	$12.6 million
BROOKINGS INSTITUTION	Moderate	250 total; 60 resident scholars	$19.7 million
CATO INSTITUTE	Libertarian	44 total; 16 resident scholars	$6 million
ECONOMIC POLICY INSTITUTE	Liberal	35 total; 10 resident scholars	$3 million
HERITAGE FOUNDATION	Conservative	165 total; 50 resident scholars	$25.5 million
PROGRESS & FREEDOM FOUNDATION	Futuristic Conservative	28 total; 15 resident scholars	$1.4 million*
PROGRESSIVE POLICY INSTITUTE	Centrists/ New Democrat	20 total; 11 resident scholars	$3.5 million**
URBAN INSTITUTE	Moderate	211 total; 125 resident scholars	$30.5 million

* Figure for 20 months ending Dec. 31, 1994

** includes Democratic Leadership Council

DATA: BUSINESS WEEK

Finally, a machine

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STRATEGIES

BACK TO 'COFFEE, TEA, OR MILK?'

Continental's simple plan: Trim down and be on time

For an airline that has bounced disastrously from one grand strategy to another, there's something almost quaint about Continental's new focus on the mundane. At dozens of airports around the country, Continental Airlines Inc. is finally painting over the red logo it officially dumped in 1991. Or consider the new blue carpet at the airline's Houston hub, part of a $3 million spruce-up. The old rug "looked like 15 years of spilled coffee," says COO Gregory D. Brenneman.

Small details, to be sure. But they represent a radical—and many say long overdue—change of thinking among top managers, most of whom are new since the ouster of CEO Robert R. Ferguson III last October. Contrast those moves with Continental's sweeping effort last year to emulate Southwest Airlines Co. with frequent low-fare service. Plagued by operating problems, Continental Lite cost the company an estimated $110 million before it was folded early this year.

CONTINENTAL GAINS SOME ALTITUDE...

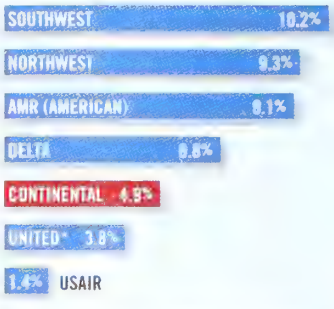
Under Bethune's "Go Forward Plan," Continental has:

- Trimmed capacity 9%, cut 4,200 jobs, and eliminated some unprofitable routes
- Boosted liquidity by renegotiating plane leases and debt
- Improved service and on-time performance, and brought back frequent-flier benefits

DATA: COMPANY REPORTS, S.G. WARBURG & CO.

...BUT LAGS BEHIND MOST RIVALS

ESTIMATED 1995 OPERATING PROFIT MARGINS



*UNITED NUMBER INCLUDES NONCASH CHARGE FOR ESOP

WATER TO WINE? That has forced new CEO Gordon M. Bethune into a last-ditch effort to pull Continental out of its long stall. The straight-talking former Boeing Co. executive, who joined Continental in February, 1994, will ground 41 planes and slash capacity 9% this year. The airline has already cut more than 4,200 jobs, or 11%, since January, with an additional 700 to go by September. Bethune, 53, is also pushing hard to improve service, while abolishing cut-rate fares. And to avert a cash crisis early this year, he renegotiated Continental's debt, squeezed aircraft lessors for concessions, and deferred delivery of new planes. "If this doesn't work, you'll need that water-and-wine guy," he says. "You better get the prayer book out, because it's beyond human ability to change."

Already, there are signs of hope. Continental lost just $30.2 million in the first quarter, less than half its year-ago first-quarter loss. That has eased fears that it might be headed back to bankruptcy court. The Houston-based carrier expects to turn a profit in 1995 for the first time since 1986. Analyst Helane Becker of Smith Barney Inc. projects earnings of $75 million on $5.7 billion in sales, after 1994's loss of $613 million.

The moves have also lifted Continental's stock from around 8 to nearly 22 since February. "I think it's going to be an impressive next few quarters," says one big institutional shareholder. "They're doing the right things." Concedes one rival: "They've made a lot of progress undoing the stupid things done in 1993 and 1994."

But if Bethune has taken Continental out of intensive care, it is far from healthy. Most of the industry is experiencing its best year since 1989. But the economy is slowing, rivals may boost capacity, and Continental's untested new management faces tough labor talks. Add it all up, and some fear Continental is already peaking. "This is as good as it gets," warns Becker.

Indeed, for all the improvement, Continental's main shortcomings remain: a weak route network, an ailing balance sheet, and a poor reputation, particularly among higher-paying business travelers. It's still a second-tier player competing nationally with bigger, stronger rivals. "What they're doing is the same thing we've done year after year," says one ex-manager—selling assets, restructuring debt, and cutting costs. "Why is it going to work now?"

BLUNT. The answer, Bethune argues, is that this time, Continental is going to follow through with the day-to-day details. Bethune rose through a series of maintenance and operations jobs at Braniff, Western, and Piedmont before a six-year stint at Boeing. Along the way, he earned a reputation as a blunt, nuts-and-bolts manager. "Gordon challenges everything, and he thrives on controversy," says Ronald B. Woodard, president of Boeing's Commercial Airplane Group. "I know of no one who [has] a better chance of turning [Continental] into a thriving organization."

Bethune minces no words about Continental's past mistakes. The company had "too many bankers and lawyers at the top, he says, and not enough peo

have a significant advantage over those tied down by convention, bureaucracy and big-spending.

FLEXIBILITY

The varied demands of today's marketplace require small businesses to perform an increasing variety of functions.

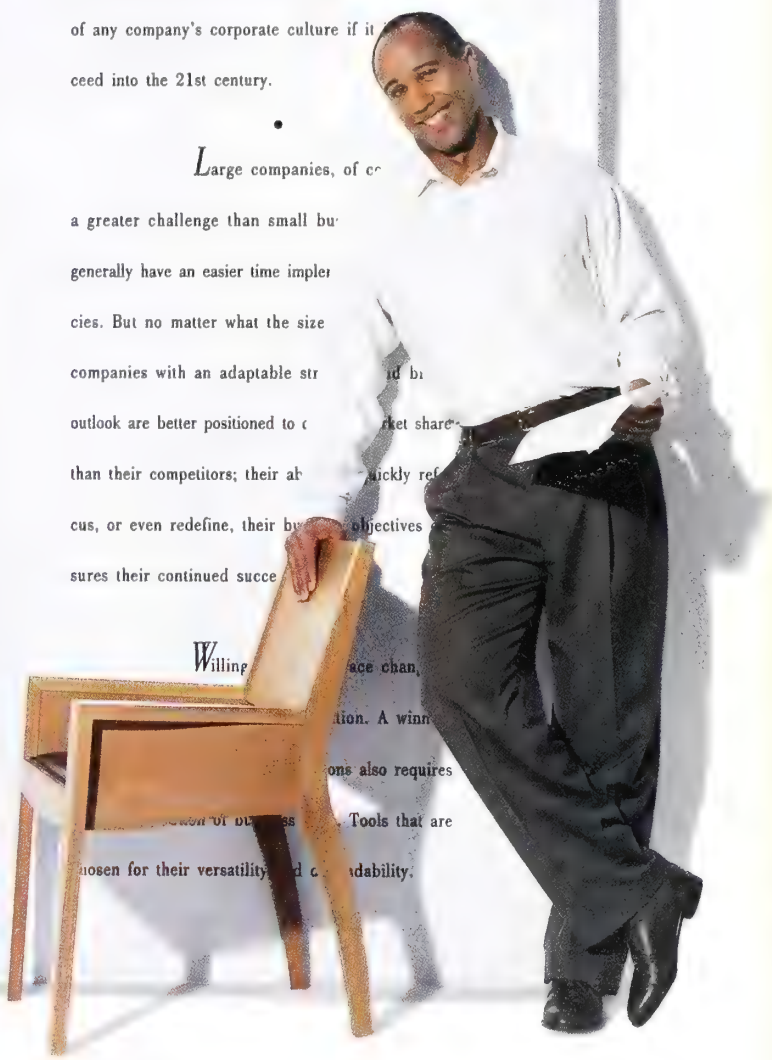
Whether it's in sales or finance, realty or retail, flexibility is the new key to long-term success. In these days of doing more with less, the way in which companies allocate resources has changed. In the past, financial clout often determined who came out on top. Today, faced with competitive and market pressures unimagined ten years ago, companies must now find

Flexibility and a sense of adventure must be a part of any company's corporate culture if it ceed into the 21st century.

•

Large companies, of c a greater challenge than small bu generally have an easier time impler cies. But no matter what the size companies with an adaptable str d b outlook are better positioned to c ket share than their competitors; their ab ickly re cus, or even redefine, their b objectives sures their continued succe

Willing ace chan tion. A winn ons also requires Tools that are osen for their versatility d c dability.



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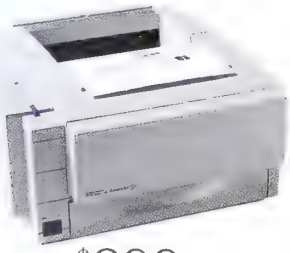

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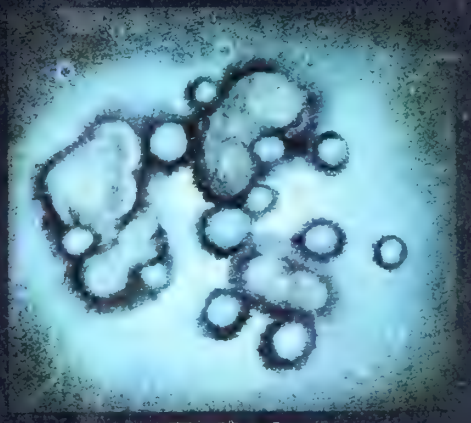

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ple who understand the market: "I came in here and I could see what was wrong in 10 minutes." He wasted little time cleaning house. He's pushed out 30 of 61 vice-presidents, replacing them with 20 new managers from places like Northwest, American, and PepsiCo. And to the surprise of airline veterans, Bethune named former Bain & Co. consultant Brenneman, a 33-year-old Harvard MBA with no previous airline experience, as COO in May. Brenneman had won kudos for his consulting work slashing maintenance costs and improving Continental's reservations systems.

The two have their work cut out. Top priority has gone to luring more high-paying business travelers, so Bethune is pushing hard to boost Continental's abysmal on-time performance. The carrier ranked dead last among major carriers in 1994, but now Bethune has tied employee bonuses to the on-time record. The result: In March and April, Continental was No. 1 for the first time ever.

But Continental's improvements could be short-lived, thanks to rancorous contract talks with its 3,800 pilots. The sides have been arguing about the size of pay hikes and whether increases should be base-wage hikes or profit-sharing. Union officials say frustrated pilots, who are paid just 60% as much as those at bigger rivals, have slowed operations. They predict Continental will soon be back near the bottom of on-time rankings.

"OBSCENE." The pilots are also incensed by the hefty severance pay Continental gave Ferguson and other departing executives, as well as the new Porsche and $1.5 million bonus it bestowed on Bethune last year when it feared he would go to United. "They're telling us the pot is dry," says Bob Wilson, president of Continental's pilots union. "To turn around and pay those types of bonuses is obscene." With no resolution in sight despite more than a year of talks, negotiations with a federal mediator will resume on June 26.

In the meantime, Bethune and Brenneman are pulling back on the penny-wise, pound-foolish cost-cutting that has hurt Continental. They've restored perks cut from Continental's frequent-flier program during the Lite frenzy, including upgrades to first class, and have sweetened incentives for travel agents. Bethune also plans to spend $8 million to put food back on some flights. While it had saved $33 million eliminating meals, Continental failed to consider the time of the flights affected or what competitors were offering. "We're not wildly adding costs back in here," adds Brenneman. "We're adding small slivers, but where the customer notices."

Continental won't find it easy to steal passengers from its bigger rivals. At best, it will offer a "me-too" product. Outside the hubs it dominates, such as Houston and Newark, passengers still have no compelling reason to pick Continental, say critics. "They're certainly not the carrier of choice for anybody," says Michael Roach, president of consulting firm Roberts, Roach & Associates in Hayward, Calif.

To prosper over the long term, some analysts believe, Continental will need to boost its network and its marketing clout by merging with another carrier—perhaps America West Airlines Inc. Continental already controls a 17% voting stake in America West as part the deal that Chairman David Bonde man, whose investor group controls 47 of Continental's voting rights, put t gether to bring it out of bankrupt And former executives believe Bonde man would welcome a sale that wou let him cash out. Both Bonderman a Bethune brush off such speculation. don't allow anybody to talk about dea here," says Bethune. "That's a [Fran Lorenzo-type approach to fixing th place, and we're not going to do i Not to say that Bethune will nev think about deals. But for now, he's f cusing on a simpler target: profitab ity. For Continental, that would be welcome first step.

By Wendy Zellner in Houst

STRATEGIES

BEATING SWORDS INTO PLIMSOLLS

Can defense contractor Iverson regain its footing–with sneakers

For Donald D. Iverson, the military buildup of the Reagan era was something of a gold rush: His company, Iverson Technology Corp., was one of a myriad of small defense contractors then springing up. But few rode the wave so far or so fast. Tapping into fears of foreign spying, the entrepreneur built a booming business providing secure computer systems for the military and intelligence agencies. By the late 1980s, the supercharged Iverson had earned a spot on BUSINESS WEEK's Hot Growth Companies list: With sales up an average of 85% a year, Iverson built a $60 million company with more than 200 employees.

Those heady days are long gone. Today, Iverson works from cramped offices in McLean, Va., alongside 17 employees. Sales plummeted below $1 million in 1994, and losses have topped $30 million in recent years.

IVERSON'S STRUGGLE TO SURVIVE

1985 Iverson Technology rides defense boom, selling anti-eavesdropping equipment for government computers.

1986-88 With sales and earnings growing roughly 85% a year, the stock peaks at 27.

1989 Sales peak at $60 million but begin crumbling when the Soviet Union falls. Iverson tries retailing PCs as the stock hits 4.

1993–94 Iverson's failure in the PC market sends the stock below 1. It tries a new niche: customized sneakers. Sales fall to $743,000 in 1994.

1995 Bondholders try to liquidate the company but settle for 35¢ on the dollar. Iverson claims shoe sales could hit $25 million by 1999.

The end of the cold war led to a sw fall in demand for the expensive co puter systems he provided. And a su cession of moves he has made since diversify have run aground.

Indeed, Iverson has spent much the past several years simply trying stay afloat. On Ju 16, he reached a se tlement with unpa bondholders who h tried to force a liq dation. But Iverson hardly conceding c feat. Legally bli from glaucoma, he pushing his struggli company into a ne arena: the sale of a letic shoes customiz with college and o er logos. Iverson, claims sales in the tle-tapped niche co hit $25 million 1999. "Business is game," he says. "I couldn't play t game, I'd die."

It's certainly c Iverson has be playing a long time. marketing major fr Stetson University

eland, Fla., Iverson did les stints for IBM, Gen- al Electric, and Honey- ell before starting his vn company selling en- gy-efficient chimney uipment in 1978.

In 1980, Iverson spied opportunity. As the fense buildup began, heard about govern- ent plans to certify mpanies that met anti- pionage standards for mputers. The secret andards, known as MPEST, involve, in part, vering computer sys- ms in steel casings so at the electronic sig- ls they throw off can't picked up. Iverson red a slew of TEMPEST gineers and became e of the first to pro- de the equipment.

His timing couldn't ve been better. De- and soared, and by 84, sales topped $6 illion. Iverson took the mpany public at $8 a are the following year, tting $1.5 million him- lf by selling a 30% ake. And through 1987, hen the company nched a secondary of- ring at nearly $22, erson and the trusts had set up for his children had sold ares worth another $7.1 million. "My mily is set for a few generations," he ys. The same can't be said for share- lders who bought into the stock at height in the late 1980s. When the viet empire collapsed in 1989, the arket for TEMPEST products evaporat- as quickly. By yearend, Iverson mbled to less than $4 a share.

ONCLAD CONTROL. Iverson scrambled diversify. He tried to sell the expen- e computer-security systems to pri- te companies, but there were no tak- s. He also bid on government ntracts for cheaper, less secure com- ter systems. At the same time, he tered the retail PC market, selling r Eastern clones through warehouse res and mail-order.

But with industry giants such as Dell mputer Corp. and Compaq Computer rp. slashing prices almost as quickly as w models were coming out, Iverson ver dented the market. With losses unting, the company virtually with- ew from the PC market by the end of 93, pushing the stock below $1.

Iverson blames the Soviet collapse for his problems, but ex-shareholder G. Bruce Douglas, chief investment officer for Douglas Capital Management, says much of the onus lies with Iverson's poorly thought-out move into retailing PCs. Douglas, whose firm once owned over 6% of Iverson, took large losses before selling out. He says Iverson also failed to warn shareholders of the impending problems with TEMPEST. "For too long, the expectations [for the company] were greater than the reality," Douglas says.

Former executives also say that Donald Iverson's hands-on management style compounded the difficulties. Iverson controlled all aspects of business at his company—as he does today. Former managers say Iverson dictated everything from the placement of furniture in the office to what they contend were uncompetitively high bids on government computer contracts. Iverson's combative style and ironclad control over the company he founded eventually "destroyed morale and diverted time from the real problems," says Dan Parker, an attorney who quit Iverson after a brief stint in 1990.

The company was also plagued by a series of legal headaches, including lawsuits by several former employees. Most damaging, however, was a criminal investigation into a $133 million computer contract with the FBI that Iverson had landed. A tip from a former Iverson employee who now works for the FBI triggered a grand jury probe in 1991 on undisclosed charges. Although the company was notified in April, 1994, that it would not face charges, the investigation took its toll. The company racked up $3 million in legal expenses—and Iverson believes the probe kept it from winning any other large government jobs.

With the investigation closed, Iverson says he'll move full steam ahead with his new shoe business. In mid-June, he struck a deal with bondholders who hold most of the $6.4 million in defaulted Iverson debt. The deal to buy back the bonds for 35¢ on the dollar will be funded by $3 million the FBI recently agreed to pay on the disputed contract.

Iverson says he now plans to raise private equity to finance growth in what he claims is the lucrative, largely untapped niche of athletic shoes customized with college, military, or other logos. A big NCAA sports buff, Iverson says he got the idea after years of hobnobbing with players and coaches at collegiate championships. After his PC business collapsed, he says, "I was looking for another good niche." He designed the shoe by hand in the workshop of his McLean home, then drew on his experience in the Far East to find suppliers.

Over the past year, Iverson has relentlessly pitched his shoes to college bookstores, military PXs, and major retailers such as J. C. Penney Co., which is testing them in six stores. Established rival Projogs International says the market is tiny—and Iverson has had no luck breaking into major sporting-goods chains such as Foot Locker and Athlete's Foot. But he insists the business will flourish. Although his annual sneaker sales are less than $500,000 today, he figures revenues could hit $25 million by 1999. Given the obstacles, that's a tall order. But no one ever accused Iverson of thinking small.

By Amy Barrett in McLean, Va.

Now, Iverson is betting on athletic shoes with customized logos: "Business is a game. If I couldn't play the game, I'd die"

CEO IVERSON AT THE COMPANY'S VIRGINIA SHOE PLANT

TOM WOLF

Cover Story

THE SMART 401(k)

Why companies are racing to recast their retirement plans

General Motors Corp. sponsors an ambitious seminar program—some 1,000 meetings in all—to talk about it with employees. E! Entertainment Television, the gossipy cable network, takes a glitzy approach, publicizing it through a barrage of voice-mail messages, E-mails, and posters. J. B. Hunt Transport Services Inc., a trucking company based in Lowell, Ark., spreads the word to its itinerant workforce through audio cassettes that can be played on long journeys.

The topic of this blitz is not a standard management theme such as improved quality or productivity. The communication crusade, repeated at companies nationwide, is focused squarely on—of all things—the 401(k). The 14-year-old pension program, which gets its uninspired name from the Internal Revenue Service code that led to its creation, has been one of the most misunderstood and poorly used of corporate benefits. But companies, increasingly fearful that they can't afford to tolerate such neglect, are scrambling to remake the 401(k).

PORTABLE. The stakes go well beyond employee morale and well-being. Poor participation by lower-paid workers curbs the ability of the higher-paid to make full use of the 401(k), because contribution limits are calculated on average company participation. What's more, managers want to preserve the 401(k) and its portability, which makes it ideal for an era of downsizing. Companies don't have to fret over pension liabilities that linger long after layoffs and early retirements, since employees take their 401(k) money when they leave.

Employers are also worried about potential legal fallout. If future retirees find that their 401(k) money is insufficient, they can accuse employers of not showing them properly how to use the program. cent regulations that many companies hoped would re their fiduciary responsibility for 401(k) plans fell far sho doing that. Aside from protecting employers if a wo makes a bad investment choice, the Labor Dept.'s so-c 404(c) rules, which went into effect in January, 1994, hold ployers accountable for picking sound investment opt and capable money managers. The rules also suggest that ployers offer at least three investment choices of var risk, not including company stock, and educate emplo about their options. But it's not clear what's adequate ed tion, and companies fear straying over the fine line betw education and outright advice. Labor is expected to i guidelines on 401(k) education in August.

Although the new voluntary regulations provide s standards for 401(k) plans, most managers lieve that their companies may be at risk ev they comply. A 1994 survey by Greenwich A ciates of 1,600 big corporate pension-plan m agers found that two out of three don't bel 404(c) offers them much protection from fu lawsuits from employees with underfunded 40 plans. "It covers an inch on the yardstick of ciary exposure," cautions Brian Ternoey, a pr pal at benefits consultant A. Foster Higgins.

If future retirees find themselves barely s ing by, they'll look to Uncle Sam for help—an unlikely that Social Security benefits will ris the occasion. Absent big changes, the syste projected to run a cash-flow deficit by 2013, ar the time the baby boomers start retiring (c page 60). And the average boomer doesn't much of a nest egg. Although the 401(k) is ha

CONSENT TO ADVICE

More than 20% of 401(k) participants surveyed by Access Research said they'd pay for professional counseling on the best way to invest retirement money

U S WEST "They give you good information in real layperson's terms. You don't have to know finance," Debbie Thomas says

J.B. HUNT TRANSPORT Gary Brown joined the 401(k) plan after an audiocassette tape warned: "Don't get lost on the road to retirement"

E! TELEVISION

"I won't have to live in a cardboard box in my old age," says talent exec Robert Sheiffele, who saves 8% of his salary

ALCOA New computer terminals let investors play what-if games about 401(k)s. "I punch in all kinds of projections," Dick Kluger says

a positive impact on savings, the personal savings rate in the 1990s is only 4.6% of income, down from 6.5% in the 1980s (page 62). "We tell people: 'If you want to maintain your standard of living, you have to be in the 401(k),'" says Rex R. Gooch, benefits manager at Coors Brewing Co.

There's little chance companies will return to the paternalistic era of retirement funding. A mobile workforce and flexible staffing needs favor the 401(k). Consider IBM. Employees at Big Blue, whose workforce has shrunk by 46% since 1986, to 220,000, look upon the traditional plan as their major source of retirement income. But earlier this year, the computer giant—at the expense of its pension plan—doubled its 401(k) matching contribution, to 50¢ for each $1 of the first 6% that employees contribute. "That sends a message that this plan is important," says Donald Sauvigne, who oversees IBM's retirement programs.

WORKHORSE. The 401(k) is also cheaper and easier to use because companies don't have to deal with as many regulations and reporting requirements. For small companies, with limited resources, the 401(k) is all they can afford. "It's nearly impossible for a small company to set up a defined-benefit plan," says Gail Keppler, chief operating officer of the Vanderveer Group Inc., a small health-care marketing outfit in Ft. Washington, Pa. "The cost would be crushing." Small wonder 401(k) assets have grown by a hefty 73% since 1989, to nearly $1 trillion. By contrast, traditional corporate pensions have increased at less than half that rate, to $1.5 trillion.

With the 401(k) shouldering more of the burden, the Labor Dept. this summer will launch a national ad campaig draw attention to retirement planning and the need higher savings, and to encourage better use of 401(k) grams. And Arthur Levitt Jr., chairman of the Securitie Exchange Commission, is embarking on a series of town meetings with unions and public pension funds this fal warn employees that they have to be smarter about 40 plans. Educating the public about savings plans "is a tical national priority," says Levitt.

DATA: ACCESS RESEARCH INC., SOCIAL SECURITY ADMINISTRATION

Companies are certainly having as if it were. The trolling for participants w expanding menus to incl such choices as internati and small-cap stock funds pack more punch. Some c panies add "lifestyle" funds employees can choose funds pending on how much risk want—and the fund mana takes care of asset allocat On Mar. 1, for instance, added 31 Fidelity Investm mutual funds to its sever vestment options, three which were GM stock. At same time, managers are b barding their charges newsletters, videos, conte and computer software on to master the perceived plexities of the 401(k).

Enlightening emplo about the 401(k) may be of Corporate America's to est tasks. Under the tradi al pension, or defined-be plan, employers used actua and professional money m agers to make investments. company made a lousy ca would make up the differe And if the company faile U.S. government agency w help out retirees. But wit 401(k), decisions about

uch to put in and how to invest it are left up to ie 18 million individuals enrolled.

Employees have gotten a little smarter about eir 401(k)s and other defined-contribution plans. ducation efforts have helped. So has the passage time. With the oldest baby boomers nearing 50, etirement is no longer the imponderable it once as. But most people, even those quite talented in eir professions, just aren't prepared to tackle the ner points of asset allocation. Nor, it seems, are ey interested in doing so.

Their insouciance shows in telling ways. Consid- : One person out of every four eligible does not rticipate in a plan (chart, page 60), and the aver- ge contribution of those who do is 7.5% of pretax come, though experts believe it would ideally be several oints higher. Another problem: Too many aren't fully in- rmed about their 401(k) investment choices or forget about eir plans altogether after signing up. A recent survey of 1,000 nployees across varying salary scales by benefits consultant owers Perrin found that 39% of participants in 401(k) and oth- savings plans have no idea how their assets are allocated.

URE CARROT. Most worrisome, the allocations in 401(k)s are vry. True, 75% of new money pouring into 401(k) programs funneled into equities. But assets in the plans remain split ughly 50-50 between lower-risk, yield-oriented investments d higher-risk but higher-return equities. Defined-benefit ans typically allocate 60% to 65% of assets to a diversified rtfolio of stocks. More alarming: 23% of the 401(k) money is the stock of the employee's company, according to Access esearch Inc., a Windsor (Conn.) consultant specializing in 1(k)s. Company stock exposes an employee's 401(k) to eat risk if the employer's for- nes head south.

The immediate challenge for any companies is just to get nployees thinking about re- ement. That was the goal of Entertainment's "Stash ur Cash" program. The aver- e age of the company's 325 nployees is 30, so managers rned to a multimedia strate- and a catchy name to get eir attention. "I knew if I st came up with 'E!'s 401(k),' would be a big ho-hummer," calls Patricia M. Robinson, nior vice-president at E! En- tainment. It has maintained erest by increasing the com- ny contribution—a sure car- for most employees. In Jan- ry, it went from 40¢ to 50¢ the dollar, up to $1,500 tops. The campaign certainly uck a chord with Robert eiffele, a 34-year-old talent ecutive at E! Although he's a tender age career-wise, eiffele credits E!'s program l subsequent seminars for hancing his 401(k) awareness. salts away 8% of his pretax ary in the 401(k) plan. True, o-thirds of his assets are in -yielding investments. But a start. "It's a nice, secure ling that I won't have to live in a cardboard box in my old age," he says.

POOH-POOHING IT

Access found that most 401(k) members did not think much of the investment information provided by employers or money managers

J.B. Hunt had similar success with its cassette tapes, one of which began with a somber warning: "Don't get lost on the road to retirement." After listening to the tapes, Gary L. Brown, 43, attended a seminar at his company's depot and signed up for the 401(k) plan in October. "I want to be able to live comfortably," says Brown, who sets aside 4% of his $30,000 salary, while Hunt contributes 2%. Thanks largely to the tapes, Brown's bosses say the company's 401(k) participation rate went from 47% to 67% of eligible employees.

SPOON-FEEDING. For lower-paid workers, easy access to their money is crucial. Working with plan provider Metropolitan Life Insurance Co., Kit Manufacturing Co., a $90 million manufacturer of mobile and modular homes, gives its hourly workers a toll-free number to call to arrange loans from their 401(k)s. Workers punch in the amount they need over the phone. A check arrives within four days. If blue-collar employees get injured or financially strapped, "they may need money and have to have it real fast," says Dale J. Gonzalez, treasurer of the Long Beach (Calif.) company.

Cover Story

It's one thing to enroll employees. But it's much harder to get them to invest wisely (chart, page 60). Companies, more at ease discussing customers and cycle-times, are hiring outsiders to talk to employees about the risks and rewards of stocks and bonds and the importance of asset allocation. By spoon-feeding employees small doses over time, companies hope the information sinks in.

It certainly did with Debbie Thomas, 43, director of public policy at U S West Communications Inc., U S West's phone unit. "I didn't know much about finance, and I didn't want to know," says Thomas, who worked for the company for seven years before she enrolled in its plan. Then, she made no effort at asset allocation, letting the money accumulate in a low-yield income fund and U S West stock. But last year, after a presentation by a company benefits executive, she reallocated her savings into a domestic stock fund and an international stock fund, in addition to her U S West shares, and she contributes a fat 16% of her annual income to the plan. Says Thomas: "One of the good things about the company program is they give you good information in real layperson's terms. You don't have to know finance to understand this stuff."

Some companies have also turned to user-friendly tools to explain the 401(k). Aluminum Co. of America installed touch-screen terminals at many of its facilities so workers can check on their portfolios. The terminals make it easy to play "what

The Smart 401(k) Plan

INVESTMENTS It should offer at least five choices, including a money-market or "stable value" fund, an equity index fund, large-cap and small-cap managed equity funds, and an international equity fund.

EDUCATION Investment education is constant, not just available when plans are launched or during enrollment campaigns. Talks by investment pros are good, small-group and individual consultations are better. Software and audio-visual materials help.

COSTS If using mutual funds, the funds should be no-load or the no-load shares of load-fund families. Funds should have low expenses and should not carry any redemption fees or surrender charges. Administrative costs are kept to a minimum.

VALUATION Accounts should be valued daily, allowing the participants to call a toll-free number to check on their balances. Participants should be able to move funds at any time. Unlimited transactions are the norm, but a limit of 10 or 12 per year is not unreasonable if it saves on costs.

LOANS Participants should be able to borrow as much as 50% of the value of their plan and pay back the loan at a market rate of interest.

CONTRIBUTIONS The employer offers matching contributions, the more generous the better. Employees should be eligible for the program as soon as they start work, even if the company delays matching. The plan should allow aftertax contributions by employees.

DATA: BUSINESS WEEK

if?" games by modeling new portfolios and potential returns. "I punch in all kinds of projections," says Dick Kluger, 57, a maintenance mechanic at Alcoa's plant in Davenport, Iowa.

Although fixing the 401(k) has taken on a new urgency with employers, the old employee habits die hard. R. R. Donnelley & Sons Co., the $4.9 billion Chicago-based printer, began installing computer terminals 18 months ago in the lobbies and cafeterias of its 40 facilities so that its employees could keep tabs on their investments. Yet $300 million out of the $360 million in Donnelley's 401(k) plan languishes in the most conservative investment options. "It takes time for people to make other choices," remarks Dewey Ingham, Donnelley's vice-president for compensation and benefits.

LEGAL QUANDARIES. The challenge to educate employees is getting steeper for many companies as they expand their 401(k) plans to include more investment choices. Many employees are overwhelmed by the torrent of information they're receiving. "The issue is clutter," complains Wayne G. Bogosian, director of personal financial education at Watson Wyatt Worldwide, the management consultant. "Just because you give employees something to read doesn't mean they're educated."

Some companies are trying a personalized approach to overcome information overload. IBM offers employees free consultation with Merrill Lynch & Co. or American Express Co. Financial Advisors and will also contribute $250 toward purchase of a detailed plan. Next year, GM will offer retirement planning as an option in its benefits package. "People want be told what to do," says Ruth Hughes-Guden, a managing rector at RogersCasey, a Darien (Conn.) pension consultan

As companies go about trying to revamp the 401(k), le quandaries and intractable employees aren't the only hurd to overcome. So are budget-conscious forces in Washingt To make up for lost tariff revenue under t General Agreement on Tariffs & Trade, Congre froze 1995's maximum tax-free 401(k) contributi at $9,240, unchanged from 1994. Previously, t limit was raised to make up for inflation. Congre also made changes so that future increases contribution limits may trail inflation. Desp the Republican Congress' lip service to savin and investment, it's unlikely that lawmakers w keep their hands off the 401(k). "Not while we a trying to balance the budget by 2002, and I r gret that," concedes Representative Bill Arch (R-Tex.), chairman of the House Ways & Mea Committee.

As the bond between employers and employe is changing, so is the nature of retirement fundi For now, at least, that means baby boomers a the generations to follow have no choice but master the fundamentals of the 401(k). That's the best way guarantee a comfortable retirement for employees—and tranquil one for employers.

By John Meehan and Jeffrey M. Laderman in New Yo with Nanette Byrnes in Los Angeles, Kathy Rebello in S Francisco, Paul Magnusson in Washington, and bureau repo

CHOP AND CHANGE

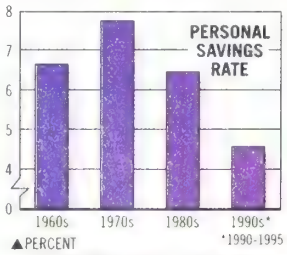
Last year, 29% of 401(k) investors upped the amount they contributed, and 3% boosted it twice or more. But 68% left things just as they were, Access found

A SHOT IN THE ARM FOR AMERICA'S DROOPING SAVINGS RATE

For years, economists have issued dire warnings about America's anemic savings rate. Without savings, America won't have the money to finance new investment. Without savings, economic growth and living standards will suffer.

But don't sweat those fears of apocalypse. Gloomy predictions miss the big story: Tax-deferred retirement savings plans, especially 401(k)s, are turning out to be powerful inducements to save. Since the 401(k) contribution is regularly deducted from a worker's paycheck, "it is psychologically very beneficial to savings. The 401(k) is a system that assists in self-control," says Jonathan S. Skinner, economist at the University of Virginia. More important, most companies match or partially match employee contributions. So a dollar socked into a 401(k) is automatically worth more than a dollar—an offer that employees should not refuse.

THE SAVINGS DROUGHT



DATA: *ECONOMIC REPORT OF THE PRESIDENT*, BUSINESS WEEK

Workers are starting to get the message. Participation rates in 401(k)s among eligible employees rose from 67% in 1988 to 75% in 1994, and more than half of lower-income workers and younger employees have signed up. Much of the recent surge in 401(k) participation has been at America's small and midsize companies, places where workers often had no employer-based retirement plan in the past, according to Dallas L. Salisbury, president of the Employee Benefit Research Institute.

Some economists argue that people taking advantage of tax-deferred savings plans tend to cut back on other savings. But much recent research supports the notion that 401(k)s are a net boost to household and national savings. For instance, economists James M. Poterba of Massachusetts Institute of Technology, Steven F. Venti of Dartmouth College, and David A. Wise of Harvard University found that those in 401(k) plans accumulate savings in other financial assets in similar amounts to families of comparable income not eligible for a 401(k).

WEALTH EFFECT. But won't the increases in the value of stocks and bonds in people's pensions in coming years cause savings to decline? After all, when asset values rise, people fe richer, spend more, and save less. Economists call this the wealth effec They believe, for example, that the savings decline in the 1980s was part ly caused by the real estate boom. I creases in the value of tax-deferred savings plans, however, have a much more limited wealth effect, says Alle L. Sinai, chief economist at Lehman Brothers Inc.

Baby boomers are now entering their peak earning years, a time whe people traditionally build their nest eggs. With 401(k)s increasingly popu lar, America's personal savings rate bound to improve dramatically.

By Christopher Farrell in New Yor

MORE GOLD FOR YOUR GOLDEN YEARS

egin young, salt away the maximum, pick equities, and get used to handling some risk

Cover Story

he difference between a smart 401(k) and one that just muddles along may not be terribly obvious right now. But it could make the difference between enjoying your golden years in a villa by the sea or a one-bedroom con- in a retirement complex. A little smart tinkering with your 1(k) now will pay big dividends in the future.

And you're going to need that money. The viability of So- l Security 30 years out is questionable, and employers e backing away from offering traditional defined-benefit nsion plans. That means your 401(k), profit-sharing, or ner defined-contribution programs must generate the bulk your retirement capital. Some people may find they have to pplement their 401(k)s with x-deferred investments such variable annuities.

You don't have to be a cket scientist to earn stel- returns on your retirement vings, but you do have to ork your 401(k) harder and arter. And the earlier you art, the more money you'll ake. For people who begin their 20s, less than 10% of e eventual value of their 1(k)s may come from their d their employer's contribu- ns. The rest comes from the mpounding effect of earn- gs on earnings. Plus, none that profit is taxed until you art drawing it out when you tire.

ICK CUSHION. The smart 1(k) is built on a foundation equity investments. Consid- this: According to Ibbotson sociates, $1 invested in ge-company stocks in 1945 is w worth about $32 after justing for inflation; for ermediate-term government nds, the inflation-adjusted ure is less than $2. And aller companies, with higher owth rates, sport an infla- n-adjusted return that's ple that of large-company cks. If you're socking most your money in bonds or able value" funds, your 1(k) needs help.

Sure, the stock market is atile, and stocks periodical- take a dive. Remember, however, the smart 401(k) has a long-range view. And the 401(k) takes advantage of dollar-cost averaging: When the market drops, your regular dollar contributions buy more shares—which pays off when the stock prices bounce back.

You'll need a 401(k) that's large enough to produce income to cover your living expenses—at least 60% to 70% of your preretirement income—while leaving enough to remain invested in longer-term investments such as stocks. If you don't, you may not be able to keep up or get ahead of inflation during the 20 or more years most of us will live in retirement.

True, inflation is low now, around 3%, but over the past five decades, the average has been 4.4%. Even if it remains at 3% and you retire a millionaire in 30 years, that's only a little more than $400,000 in today's dollars. Combined with Social Security, that would provide an adequate but hardly upscale retirement lifestyle.

Look at what a 401(k) plan can do for employees who start young (table). Take the hypothetical case of a 27-year-old earning $40,000 a year who enrolls in his employer's 401(k). Suppose he contributes 5% of his income, or $2,000, to the plan, and assume his employers match that 25¢ on the dollar. Figure in 3% average annual growth in wages and contributions. What will it be worth?

It depends on how it's invested. Printed materials that accompany 401(k) plans often have five or six sample "asset allocations"—a blueprint for allocating the dollars between the available investments. Financial-planning software can enable investors to develop a more customized plan and make financial projections.

In the case of the 27-year-old, the software program Prosper by Ernst & Young recommends allocating 35% of the assets to large-company

The Long Haul

*How well you live in retirement depends in part on how well you run your 401(k) plan. The amounts you and your company contribute are important, but even more critical are the investments you choose. Here are four examples of people at various ages and how they might launch or improve a 401(k) investment program.**

JUST STARTING

Age	Retirement Age	Current Income
27	67	$40,000

Contributes 5% of income

SUGGESTED ALLOCATION

Risk level
High

Expected return
11.2%

Value at retirement
$2.2 million

OR

Risk level
High

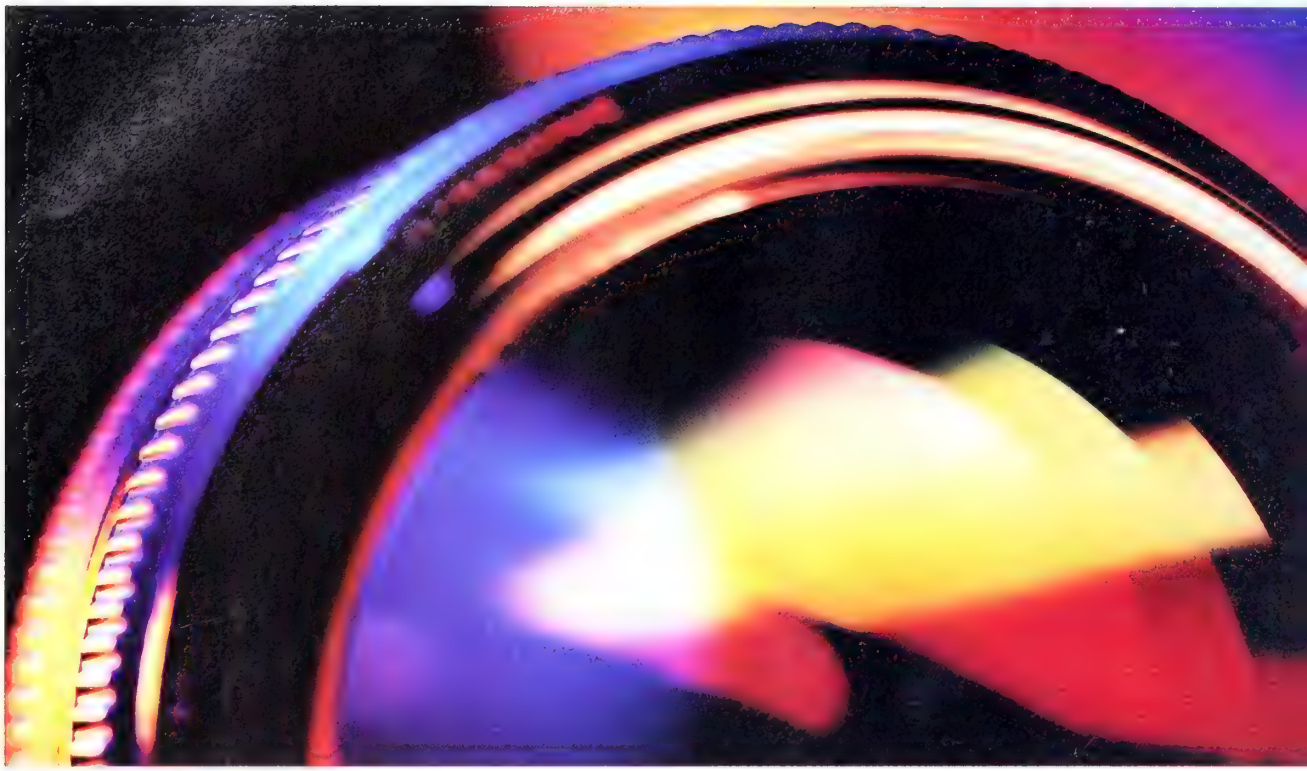
Expected return
13.2%

Value at retirement
$3.6 million

If employee boosts his contribution to 6% of income, the final value grows to $4.4 million.

ese examples were calculated using Prosper by Ernst & Young, a personal-finance software program. It uses the following assumptions: The ximum contribution an employee may make is $9,240—the 1995 limit; the employer puts in $1 for every $4 the employee contributes—up 5,000; and there are 3% annual increases in income—and thus in contributions and in the employer's maximum match.

CHARTS BY LISA KNOUSE BRAMMER/BW



stocks—the investment option that offers an index fund that tracks Standard & Poor's 500-stock index, or an actively managed equity fund that buys such stocks. Then, 21% goes to small-company stocks, either an index or actively managed fund; and 44% goes to bond funds or "stable value" funds offered in most plans. According to Prosper, the 27-year-old would have $2.2 million by the time he retires in 2035—an 11.2% return on investment. If the plan offers the more volatile but higher-return international stocks, he can boost the expected rate of return to 13.2% and potentially amass a $3.6 million portfolio.

In building a smart 401(k), don't confuse owning one stock with owning a diversified portfolio of stocks. They are not the same thing. "I've seen people with $600,000 in their 401(k)—and it's all in their employer's stock," says Elaine Collins of Collins Financial Planning Service in Libertyville, Ill. "No matter how good the company is, that's a risky proposition."

UNKNOWN FEAR. How risky? Take IBM stock, which lost more than 70% of its value from 1987 to 1993. That would have been devastating to any retirement plan that was 100% invested in Big Blue, especially considering that the S&P 500 gained 30% during the same period. Even with IBM's comeback, the stock has made up only about half of its loss. Collins counsels clients with one-stock plans to take a more diversified approach, but many resist. Says Collins: "They don't think their stock is risky because they understand the company. They think the stock market is risky because they don't understand it."

Trying to change the idea of risk is not easy. How much risk people will take is deeply ingrained in their personalities, and most tend to be risk-averse. Asset-allocation programs and workbooks include do-it-yourself quizzes that try to determine your ability to take risk. Most questions ask about age, income, net worth, and dependents—trying to pinpoint how much financial risk you should take on.

But a few try to get inside your head. LifePoints, an educational package for 401(k) investors developed by Frank Russell Co., invites responses to such statements as: "An occasional trip to Las Vegas or Atlantic City could be profi able as well as fun" and "F the right opportunity, I'd qu my job and start my ow business." Five responses a offered, ranging from "stron ly agree" to "strongly di agree." A person who agree strongly gets five points c the self-scoring quiz.

As in most such exercise respondents with high score are directed toward the mo risky—and potentially rewar ing—asset-allocation plan But think about whether yo should take canned advic without asking questions th test didn't pose. For instanc if you're in a profession wit high job turnover and episo ic unemployment, you ma want to lighten up on risk.

While questionnaires var in quality and differ slightly asset-allocation advice, the point investors in the right d rection. "No asset-allocatio model is so great that you ca say 72% in equities is bett than 70% or 75%," says Dav Huntley of Baltimore-based Investment Consultants, whi specializes in 401(k) plans. "Th point is, you lead people t ward that decision."

Indeed, the 401(k) educational materials reinforce the noti that taking calculated risks can make you a whole lot riche Consider the example of a 45-year-old whose 401(k) is sp evenly between large-company stocks and bonds (table). I a "moderate-risk" strategy with a projected return of 9.7 according to Prosper. Go up the risk ladder one rung, mix small-company and international stocks—and the expect rate of return rises to 12%.

Why stop there? Why n invest all the money in sma company or internatio stocks that might earn ev higher returns? The asset-al cation model doesn't reco mend the mix of assets w the absolute highest retu but rather the most "efficie portfolio—that is, the mix investments that delivers t highest return for the risk.

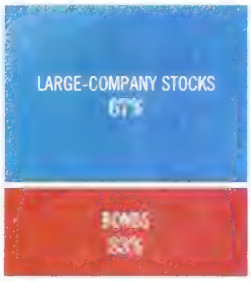
If fine-tuning your 401 means reallocating a lar sum, don't move it all at on In our example (page 67) 55-year-old investor has $200,000 portfolio, 75% of in bonds. The new plan c for shifting about $50,000 fr bonds to small-company a international stocks. But m it in small pieces, perha $5,000 a month. That avo the risk of putting all his m

AN EARLY COURSE CORRECTION

Age	Retirement Age	Current Income
35	67	$70,000

Employee contributes 6% of his income to 401(k) and has so far amassed $15,000; $10,000 in a bond fund and $5,000 in a large-company stock fund. It's a low-risk strategy with an expected annual return of 8.4%.

SUGGESTED ALLOCATION



Risk level
High

Expected return
11%

Value at retirement
$2.2 million

OR

Risk level
High

Expected return
13.3%

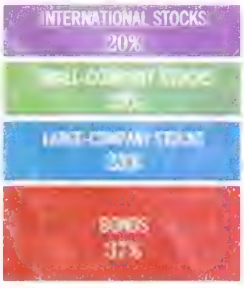
Value at retirement
$3.5 million

MIDCAREER

Age	Retirement Age	Current Income
45	66	$100,000

Employee makes a 6% contribution and has $40,000 in the 401(k), with money split 50-50 between stocks and bonds. It's a moderate-risk strategy with an expected 9.7% total return.

SUGGESTED ALLOCATION



Risk level
High

Expected return
12%

Value at retirement
$1.2 million

If employee boosts his contribution to 8% of income, the final value grows to $1.5 million.

into an investment the day ore it turns south.

And remember, once a plan n place, it should be moni- ed. If, for example, one ce of the 401(k) is supposed be 20% but because of rp increases in the market ue runs up to 30%, you uld rebalance the 401(k) to lect your long-term goals.

If you're a smart 401(k) in- tor, you stash as much as can into the plan. Not only you build the nest egg but tax code helps, too. Most ployers also pitch in by tching part of your contri- ion. The employee's maxi- m contribution is now 240 a year.

But even if you're financial- able to put aside that much ney, your particular compa- plan may bar you from doing so. That's because Internal venue Service regulations can limit the amount of money t higher-income employees can contribute if there isn't ugh 401(k) participation by lower-paid workers. If that's case, you'll have to look at several alternatives. Like 401(k), all defer taxes until the money is withdrawn. like the regular 401(k), however, there's no tax deduc- n for contributions and no company match.

PARATE POTS. The aftertax 401(k)—many large-company ns offer this feature—can be a wise choice for additional irement savings. There are limits to the amounts of mon- you can put in, which vary with the plan. But if you like investment choices of the plan, it makes a lot of sense to sh your additional retirement savings dollars there.

Suppose you contribute the maximum to your aftertax (k), and you still want to do more. You can put as much as 000 a year in a nondeductible Individual Retirement Account, and there's no limit to the number of brokerage firms and mutual-fund companies that offer them. With this sort of investment, you—not your employer—decide who's going to manage your money. It's also a way to include investments that your 401(k) may lack, such as small-company or international funds.

The downside is extra paperwork. If you have a tax-deductible IRA too, you have to keep meticulous records of which investments were made with deductible and nondeductible dollars. Otherwise, you risk eventually getting hit for tax on your aftertax contributions. One hint: Use separate financial institutions for the deductible and nondeductible IRAs.

If you still need to accumulate additional savings for your retirement, consider the variable annuity. This investment, usually the joint product of an insurance and a mutual-fund company, works in much the same way as a fund—but you don't pay taxes on the dividends or on the capital gains until you start withdrawing the money. And you may stash away as large an amount as you like. The fees are higher than for comparable mutual funds, and the surrender charges can be stiff on early withdrawals. Competition is increasing in this market, so shop around for the best terms.

Building a solid investment plan and monitoring it may appear to be a daunting task. But the reward you get for the effort you invest will be enormous.

By Jeffrey M. Laderman in New York

Cover Story

CLOSING IN ON RETIREMENT

Age	Retirement Age	Current Income
55	65	$125,000

Employee makes the maximum contribution of $9,240 and has $200,000 in plan, with a low-risk allocation: 75% in bonds and 25% in large-company stocks. The expected return is 8.8%.

SUGGESTED ALLOCATION

Risk level
Moderate

Expected return
11.1%

Value at retirement
$800,000

Stashing Away More Retirement Cash

If you've made the maximum contribution to your 401(k) plan and want to do more, here are your options:

ME	DESCRIPTION	ADVANTAGES	DISADVANTAGES
TERTAX 1(k)	Works like the regular 401(k), except contributions come out of aftertax income, with limits on maximum contribution.	Tax-deferred buildup of investment income, just like the regular 401(k).	May not be an attractive alternative if the plan doesn't have desirable investment options.
TERTAX DIVIDUAL TIREMENT COUNT	While the tax-deductible IRA is off-limits to most people who have a pension plan, individuals can still put up to $2,000 a year ($2,250 for a couple) of aftertax money into an IRA.	Tax-deferred buildup of investment income. Investor is not limited to the 401(k) plan's choices.	Restrictions on early withdrawal. When money is withdrawn, earnings are taxed as income even if they are capital gains. Extra investor must keep track of nondeductible contributions.
RIABLE NUITY	A mutual fund tucked inside an annuity "wrapper," often a joint offering of an insurance company and a mutual-fund company.	Tax-deferred buildup of investment income. No limit on amount of aftertax dollars that go into plan. Investments may be made at any time and in varying amounts. Investor is not limited to the funds in the 401(k) plan.	Fees can be high. Insurance charges can add 1.25% more in expenses every year. Most variable annuities have declining surrender charges. Restrictions on early withdrawals.

DATA: BUSINESS WEEK


THE
UNITED STATES OF AMERI
10,000
SERIES
1928
TEN THOUSAND
IN GOLD COIN PAYABLE TO THE
10,000

Without Unisys Desktop Services, supporting each computer user can run up quite a bill.

According to industry research, it w costs companies up to $10,000 per ar to support just one employee's desk- workstation. And only a fraction of at is the cost of the workstation itself.

Fortunately, Unisys Desktop Services n bring these costs under control.

With its comprehensive range of ograms, Unisys Desktop Services es you all you need to control all ir support expenses. No matter what's your desktops, where in the world it or whose names are on it.

For example, our Desktop Maintenance Service uses a unique modular replacement method that cuts expensive—and sometimes crippling—downtime.

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All of which are delivered by a single source of proven, worldwide expertise.

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And hurry. Because the bill you're running up now can only get bigger and bigger.

UNISYS

CABLE NETWORKS

ROGER AILES FIXED CNBC, BUT NOW TED TURNER LOOMS

Will Roger stick around for a showdown?

Roger Ailes insists he doesn't like to criticize rivals. But when prodded to explain why he thinks Ted Turner's powerful Cable News Network can't mount a credible challenge to his CNBC business-news channel, he warms to the task nicely. First of all, he says, Turner's estimate of what he'll need to spend to give chase to CNBC is pure bunk. "They're going to have to spend millions—and I mean millions—to make it work," Ailes contends. "Somebody's not leveling with the board about the cost of generating a full-time business-news service." (Hello, Ted?)

CNN will have to hire more business journalists, spend heavily to market the service, and muscle through distribution agreements, Ailes says. He guesses it will cost more than Turner is willing to spend. "Right now, they have a worldwide brand name for tragedy headlines," he figures. "The good news is, you can count on enough tragedies to keep people tuned in. If there are enough O.J.s and wars out there, they're gonna make a lot of money." (CNN, of course, disputes all of this except the part about making a lot of money.)

AILES LIVE: *"Adding lig to the public debate"*

Ailes wants a clearer sense that he's running the CNBC brand image—and more money to fend off rivals

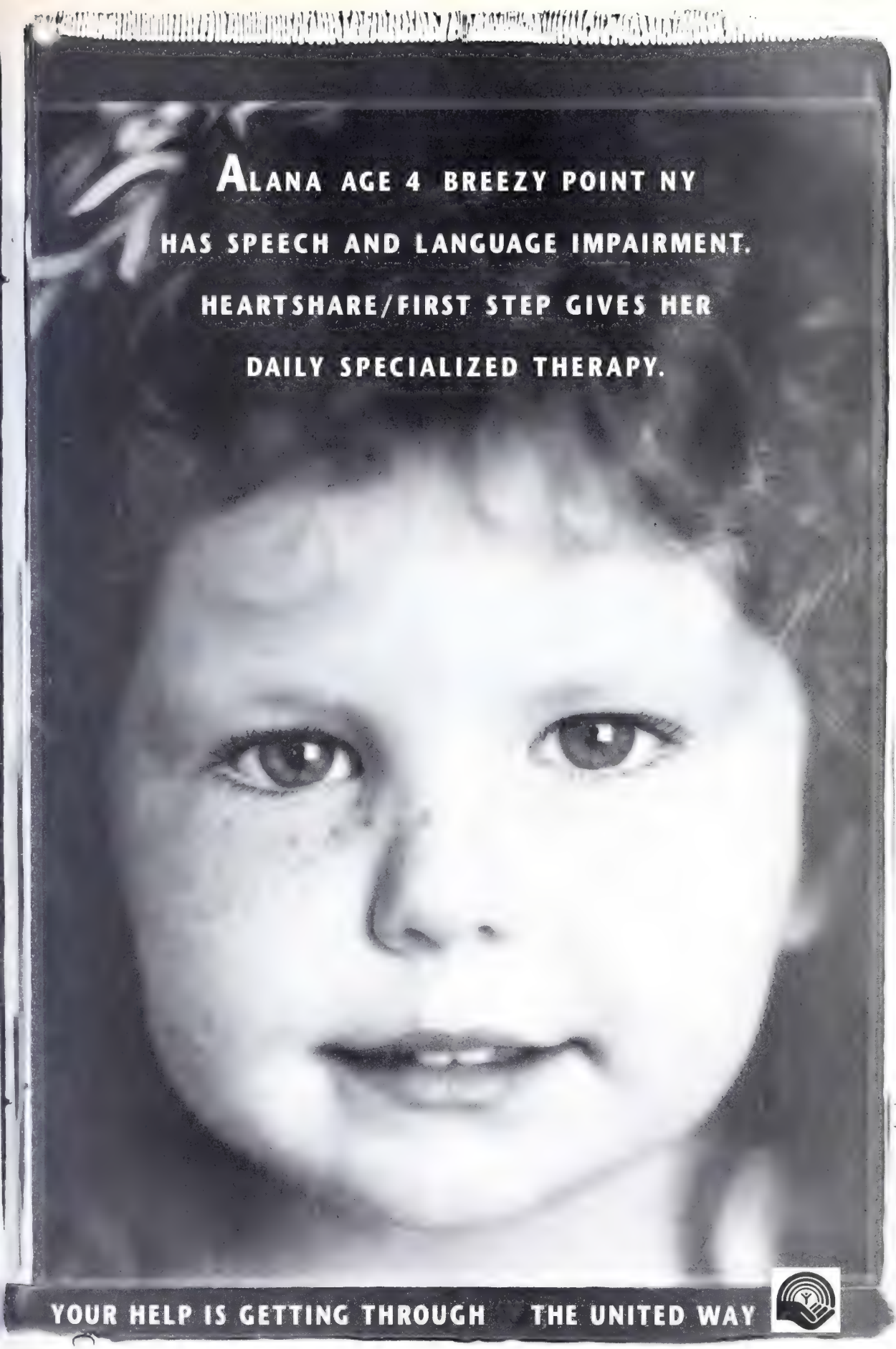
"UNNERVING." Ailes has never been short on opinions. To listen to him for more than five minutes is to wonder why he didn't opt for a career in talk radio. He has the natural ability—honed while burnishing the images of three Republican Presidents—to say things with such simple, lyrical self-confidence that, even if you don't agree with him, you have to stop and think about why not. "I've never had a conversation with him where I didn't have the sneaking suspicion that he knew more than I did," says one person who has worked for him. "It's a little unnerving."

The big surprise is that Ailes's bulldog style has adapted itself so easily to running a business. In the two years since NBC Inc. hired him, CNBC has become solidly profitable, rati have improved dramatic for its prime time lineu talk shows and daytime b ness news has found a voted, if still small, foll ing. The success has insp NBC to launch a new b ness channel for Asia, plans are in store for a ropean CNBC.

"BUZZ." Less surprisin that the former spinmei for Presidents Nixon, I gan, and Bush has been to imbue his latest ch with that elusive qu called "buzz." "It's got a niche and it's profita says Frank J. Biondi Jr., of Viacom Inc. "I'm wa ing it right now."

The question these da whether Ailes will around. His contract NBC is up in September, he has to decide whethe renew by June 30. NBC offered to extend neg tions, but Ailes says he'd to make a decision on He's taking a week's vac to think it over, and intim say he is pondering two TV jobs. (Fox Broadcas Co. chief Rupert Murd long an Ailes fan, has mentioned as a suitor, as CBS Chairman Laurenc Tisch). "I love it here. not going to make any bones about t Ailes says. "But I've got to feel com able going forward." Says a top NBC utive: "I'd be shocked if he left."

What would make Ailes comfort "I want a say in strategy and th sources to win the battle," he says. important, Ailes insists, is that he integral part of managing the glob



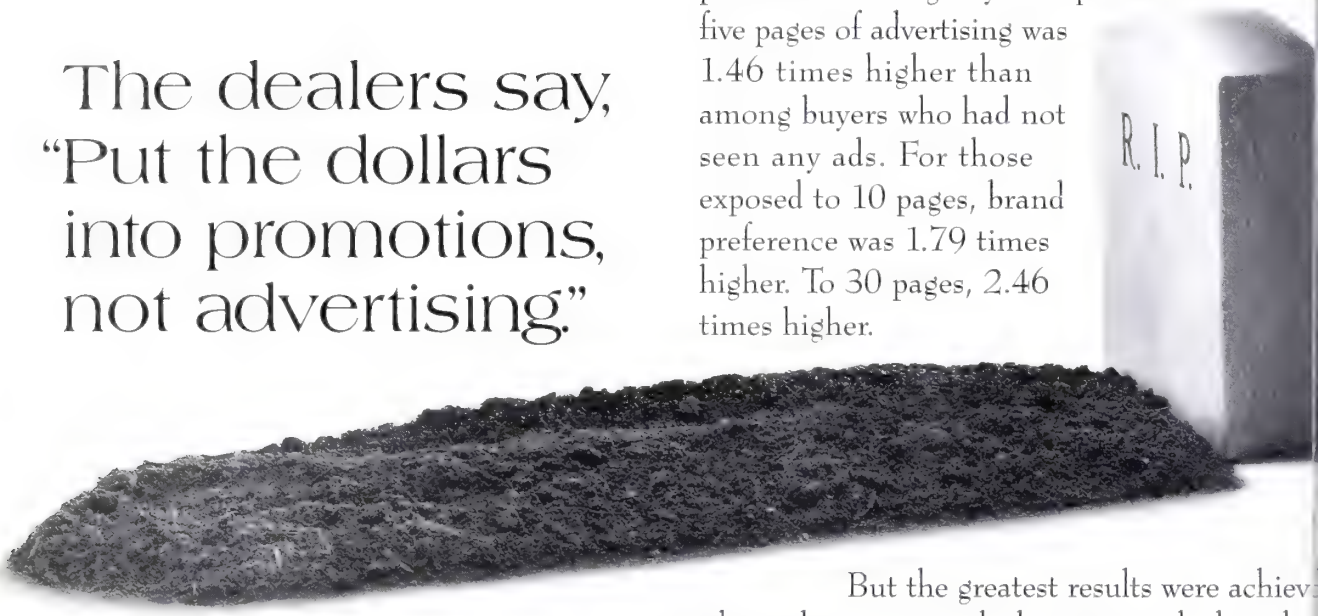
Public service announcement courtesy of McCann-Erickson and this publication

The fastest way to kill a brand is to sto
advertising. Do it and you're letting your deale
get away with murder.

Advertising generates strong brand awareness and builds brand preference. Such preference is particularly critical for marketers who have little or no control over the sales follow-up process.

In fact, we recently found that brand preference among buyers exposed to five pages of advertising was 1.46 times higher than among buyers who had not seen any ads. For those exposed to 10 pages, brand preference was 1.79 times higher. To 30 pages, 2.46 times higher.

The dealers say, "Put the dollars into promotions, not advertising."



But the greatest results were achiev
when advertising worked in sync with the sales
effort. Buyers who received a sales call and wh
were exposed to five pages of advertising had a
brand preference level 3.75 times higher. To 10
pages, 4 times higher. And to 30 pages, 5.33
times higher.

It has also been proven that advertisin
increases share of market. Something from whi
everyone can benefit.

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AAAA/ABP/ANA

American Association of Advertising Agencies
American Business Press
Association of National Advertisers

sion of Brand CNBC. NBC Chairman bert C. Wright is confident Ailes will y. Referring to several New York ss reports about the negotiations ight says: "He gets out there in the ss because Roger is a very press ori- ed guy."

NBC clearly sees CNBC as a standard- rer. On June 20, the broadcaster nched a separate 24-hour, Hong Kong- ed business-news network called CNBC a that will feature 12.5 hours of local- produced coverage of the Asian mar- s during the day, supplemented over- nt with live coverage of the European U.S. markets produced by CNBC in Lee, N.J., and London. "We're literal- ive wherever the business day nfolding," says Thomas Rog- the NBC executive whose re- nsibilities include CNBC and C Asia.

Over time, CNBC in the U.S. migrate to a similar 24-hour al business-news format. But now, prime-time and late- nt slots are taken up with a v of talk shows (table). Last y 4, Ailes launched a 24-hour, talk network called America's king (which features, among er things, Ailes's own celeb- -interview show). Assuming erica's Talking grows past its rent 16 million subscribers, C's talk shows will ultimately ve to that channel.

Viewership at America's Talk- is so low, it isn't rated. ether it can develop into a tender remains to be seen. C is a clearer story. When es got there in 1993, the net- rk was losing substantial unts of money. Although it bought out its only rival, Fi- cial News Network, for a rich 5 million in 1991, it hadn't e much with it.

MAN. Ailes quickly focused f and advertisers on the slo- "First in Business, First in Talk." upgraded production values and made e guests booked for the daytime inter- v segments were movers and shakers. also convinced NBC that he should rsee ad sales as well as production. "I l: 'This is the only way I can do this '" he says. Revenue improved.

Ailes, who is still executive producer Rush Limbaugh's TV show, is an in- erate conservative. But his vision for C's evening talk format has less to do n politics than fostering compelling ts of any stripe. Geraldo Rivera and daily digest of the O.J. trial gets best ratings these days, but the w wins plaudits for being particular- n-Geraldo-like. Says Ailes: "The mis- sion here is not to appeal to the lowest common denominator of mankind. I mean, there are 30 talk shows out there, and they're all trying to find the most dysfunctional person in America to be the guest. They're not going to be happy until somebody shoots somebody else on camera. We're adding light to the public debate, not just heat."

Ailes is working now to make day- time business news more compelling. While it is better than when he got there, its ratings haven't done as well as the prime time talk formats. Indeed, business ratings during much of the day have declined slightly over the past year, although this may be attrib- utable to the O.J. factor. Currently un- der review: *The Money Wheel*, CNBC's core daytime programming, which con- tinually updates various market figures and indexes. Although viewers seem content, Ailes and daytime boss Jack Reilly would like something less repet- itive—perhaps more interview shows like noontime's *Inside Opinion*. Its interviews with Administration officials often move markets.

The good news is that many of CNBC's viewers are rabid, well-heeled fans, such as Billie Bolden of Mount Car- mel, Ill., who is retired and manages her own account. And missing from the ratings is almost half of CNBC's audience. The network has become a staple on Wall Street trading floors and in execu- tive offices such as Biondi's. Most of those viewers keep the volume down and only turn it up when something interests them. Nevertheless, they add to the perception that the network is watched by rich people, which means CNBC can charge a premium for ads.

FAT MARGINS. Indeed, CNBC's business is based on niche economics. At $145 mil- lion, its revenues are puny compared with NBC's billions. But because it's non- union and production costs are low, its operating margins are fat. "These things take off once they hit break- even," says Rogers. "The cost of getting the first subscriber is the same as getting the 40 millionth sub- scriber."

Expanding in Asia and meet- ing a possible challenge from Turner, however, will drive up costs. It is generally assumed that Turner can put together a service fairly cheaply because of CNN's vast news resources. Getting distribution for a new channel on cable systems, though, will be a multiyear pro- ject—even though the nation's four largest cable systems own 14% voting control of Turner. "We haven't automatically agreed to roll out the service," says Rob Stengle, senior vice- president of programming for Continental Cablevision Inc., one of the four.

CNBC Asia is another matter. Wright concedes that it is a major investment that will involve "tens of millions" of dollars. Competi- tors such as ABN, a joint venture of Dow Jones & Co. and Tele- Communications Inc., will pose a threat, and nobody knows what it will cost to win loyalty among Asian viewers. Sources in Hong Kong say CNBC is already spend- ing more than anybody else to lure talent. The service is being run by S.K. Fung, a veteran Taiwanese broadcaster, who should help lend cred- ibility to the venture. But, says Wright: "This is obviously going to take years to develop."

Ailes says he has no interest in run- ning CNBC Asia. But he wants his opin- ions heard—including in Europe, where CNBC is now on NBC Super Channel. "When I got here, I felt CNBC didn't have a vision," he says. "Now that we're going worldwide, I want to have some input in that." One thing is for sure—nobody ever had to pry Roger Ailes open to find out his opinion.

By Michael Oneal in New York, with David Lindorff in Hong Kong and David Greising in Atlanta

The World of CNBC

U.S. OPERATIONS — FT. LEE, N.J.

CNBC

REACHES	PROJECTED 1995 REVENUES	PROFITS
55 MILLION HOMES	$145 MILLION*	$40 MILLION*

Fourteen hours of original news programming and interviews from 5:30 a.m. to 7:30 p.m. Eastern time. In prime time, five hours of talk shows hosted by Geraldo Rivera, Mary Matalin and Dee Dee Meyers, Charles Grodin, others. Reruns after midnight.

AMERICA'S TALKING

REACHES	PROJECTED 1995 REVENUES	PROFITS
16 MILLION HOMES	20 MILLION*	LOSS*

Fourteen hours of original talk programming including Straight Forward with Roger Ailes, Parents Helper, Alive & Wellness, and A-T In Depth, a news wrap-up show. Reruns the rest of the time.

CNBC ASIA — HONG KONG

Launched June 20 with 24 hours of business and markets coverage, including 12.5 hours of live reporting from NBC Asian bureaus. Fills in with CNBC's U.S. and European coverage at night.

*BUSINESS WEEK estimates

DATA: COMPANY REPORTS, BUSINESS WEEK

DEALS

THIS TAKEOVER GOES WAY PAST HOSTILE

Carson's won't stop pursuing Younkers–and it's "very ugly"

Just a few weeks ago, Carson Pirie Scott & Co., the Milwaukee department-store chain, thought it had Younkers Inc. in the bag. Its hotly contested and unusually nasty eight-month takeover battle had succeeded in forcing three directors, including Chairman W. Thomas Gould, off the nine-person Younkers board and replacing them with Carson's representatives. And a shareholder initiative engineered by Carson's had produced a resounding majority vote for a nonbinding proposal to put Younkers up for immediate sale.

Sound like shareholder democracy in action? Guess again. At a June 2 board meeting, Younkers, a staid but resourceful Des Moines department-store company, struck back with a flurry of well-orchestrated maneuvers to snatch an unlikely stalemate from the jaws of defeat. Younkers reseated Gould and the other ousted directors by adding one additional board seat and accepting the resignation of two outside directors.

"INSULTING." Back on the board, Gould argued that even though Carson's proposal to force a sale got 55% of the votes cast, 19% of the shares weren't voted, so it hadn't won a majority of shares outstanding. Besides, Carson's owns 12% of Younkers already, so those shares shouldn't be counted, Gould contended. In a 7-3 vote, the board agreed, refusing to put Younkers up for sale.

The Carson's-Younkers boardroom battle is a far cry from today's quick Lotus-style capitulations. It's a stand-

LOGGERHEADS For Carson's Bluestone (top), merger makes sense strategically. But Gould of Younkers has an agenda of his own

out even by the wild standards of b havior for the hostile takeovers of t 1980s. "This stuff looks very ugly," sa Steven N. Kaplan, a finance professor the University of Chicago's busine school. Younkers Chief Financial Of cer Alan R. Raxter terms the Carso bid "insulting." Carson's Chief Exec tive Stanton J. Bluestone says he w "shocked and upset" by the machin tions of Younkers directors. But ther not a lot he can do about it except ta the issue to court—which Carson's d on June 15, filing suit in Delaware Cha cery Court, charging Younke directors with gross breaches fiduciary duty and conspiring nullify the shareholder vote.

LANGUISHING. With 53 stor spread over seven Midweste states, Younkers is an unlike candidate for such a skirmi The midprice retailer, with fis 1995 sales of $559.1 million, h been struggling since 1992, wh it bought 25 Wisconsin depa ment stores for $76 million. S en quarters of poor results l Younkers shares languishi around 14 last summer, do 57% from their 1993 high of 3

To Bluestone, 60, Carson's l key but fiercely determined c capturing Younkers would gre ly further his strategy to build Carson's Midw stores, with 1 sales of $1.2 bill Younkers emer from bankrup in late 1993, a an ill-fated lev aged buyout. Gould, 49, wh lofty ambitions tend to becom a Presidential viser, capitula to Carson's w kill his aim create his $1 billion reta Younkers rejec

Store Wars

OCT. 27 Milwaukee retailer Carson Pirie Scott makes an unsolicited $17-a-share merger proposal to retailer Younkers.

OCT. 30 Des Moines-based Younkers fights back, adopting a poison-pill plan that is triggered when outside parties acquire 10% of its stock. Carson's 12% stock holding is grandfathered, but it is prevented from acquiring any more Younkers shares.

NOV. 7 Younkers' board unanimously rejects Carson's offer.

JAN. 5 Carson's starts a $17-a-share cash tender offer for Younkers, using proceeds from the sale of eight Carson's stores.

MAR. 9 Carson's raises its bid to $19 a share.

MAY 30 Younkers stockholders revolt. They approve a nonbinding resolution to put the company up for sale to the highest bidder and vote in three directors nominated by Carson's. The three defeated include Younkers Chairman W. Thomas Gould.

JUNE 2 The three ousted directors are reseated on the board, which votes 7 to 3 not to sell the company.

JUNE 15 Carson's raises its bi to $20 and sues Younkers for gross breaches of fiduciary du

DATA BUSINESS WEEK

bid as "grossly inadequate" and re-
d to negotiate. It was no more hos-
ble to a $19-a-share bid in March.
June 15, Carson's said it would raise
bid to $20 if Younkers agreed to a
by July 1. Younkers had no imme-
e response.

LINE. Younkers, which is incorpo-
d in Delaware, a state with a histo-
f pro-shareholder court decisions,
be walking a fine line in its refusal
egotiate, attorneys say. As a gener-
ule in Delaware cases, a board has
duty to act in the best interests of
eholders. "You can argue the board
reject out of hand an outside suit-
that they have an obligation to con-
r an offer," says shareholders' law-
Jeffrey G. Smith of New York's
f Haldenstein Adler Freeman &
z. But a corporation's duty to "max-
e value" for shareholders comes into
only once management triggers it
certain actions, such as seeking
r suitors. Because Younkers has
dfastly maintained it is not for sale,
kely hasn't crossed that line, says
University of Chicago's Kaplan.
ounkers' resistance has some ana-
scratching their heads. A Carson's-
ikers merger makes sense strategi-
, says Dean Ramos, a retail analyst
Dain Bosworth Inc. The retailers
plement each other geographically
operate the same kind of full-line,
erately priced stores. And given the
d consolidation in retail, the options
mall regional department stores are
ted: acquire or be acquired. Al-
gh Younkers posted improved re-
in the past two quarters, the re-
r, says Ramos, may be running lots
les to pump up results in the short
. That could hurt profitability down
road—in addition to making the
pany less attractive to potential ac-
tors. There don't seem to be too
y of those around, in any case: Since
on's bid last October, no other sui-
has expressed interest.
an Younkers fend off its unwanted
er forever? Carson's promises to
fighting, despite the escalating cost.
mid-1996, Younkers won't be an in-
ndent company," predicts an angry
Dickstein, chairman of Carson's
president of Dickstein Partners Inc.,
ew York investment-banking firm.
ither side budges, Carson's can run
her slate of three directors next
which, if elected, would create a
Carson's majority on Younkers'
d. Vows one large Younkers share-
er: "They've got one year to get
ngs turned around, or they're like-
face another revolt." If that hap-
, it will take more than fancy foot-
to save Younkers.

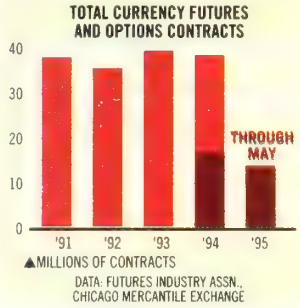
By Susan Chandler in Chicago

A DIMMER FUTURE FOR CURRENCY FUTURES?

The Merc is losing its luster for foreign exchange traders

With the dollar plunging, the Japanese yen and German mark soaring, and other major currencies gyrating, it would seem like boom times for exchanges that trade futures and options on currencies. But that's not the case. Business lags badly, with volume of Chicago Mercantile Exchange currency contracts down 17% in the first five months of 1995, after a 3% decline last year. At the Philadelphia Stock Exchange, the other major player in listed currency derivatives, turnover plunged 49% through May—on top of a 23% drop in 1994.

The immediate culprit is the treacherous currency market itself. Investors stung by last year's volatility are treading cautiously this year. The dollar's collapse this spring sent many smaller U.S. investors to the sidelines. But there's a more serious long-term problem: Stiffer competition from the much larger interbank currency market. With business ebbing after a decade-long boom, it has responded by stealing some of the exchanges' bread-and-butter customers—especially commodity-fund managers.



A major problem: How to compete against 24-hour trading desks

That won't put the Merc out of business. Volume in Eurodollar contracts, an interest-rate play, has tripled as currencies have stagnated, and stock-index futures are thriving. But if banks continue to grab currency market share, the Merc could lose its status as the most visible pricing benchmark.

ON THE SCENE. The Merc will fight back, vows Chairman John F. Sandner, who launched a rescue plan on June 12. The exchange will try to woo retail business by offering market-price data on the Internet. On the trading floor, currency brokers will don two-way headsets so customers can get information directly from the pits. A new block-trading system will help accommodate large orders, which increasingly have gone to over-the-counter markets. In a controversial move, the Merc intends to lift part of its ban on dual trading—letting brokers trade for their own accounts while filling customer orders. Supporters believe that practice enhances liquidity, though detractors say it invites fraud.

Watch for a slew of new products, too. Encouraged by the Apr. 25 introduction of Mexican peso futures, the Merc plans to trade the lira, peseta, and Brazilian real. It is mulling over Asian currencies as well, Merc officials say. The Philadelphia exchange also plans to trade lire and pesetas. And both exchanges will experiment with flexible contract formats that imitate the customized products that are available in over-the-counter markets.

There's just one problem: Such efforts haven't worked in the past. The interbank market retains a virtual lock on structured products, and contracts on secondary currencies have limited potential. The exchanges haven't competed effectively with the 24-hour trading available at banks, and they can't always handle large orders: "It's like trying to land a jumbo jet in a municipal airport," notes Chase Manhattan managing director Gabriel Inoue. The bank market also benefits from less-onerous regulation. And now traders can get interbank margin accounts that provide the same leverage available through futures.

Dismissing the current malaise as cyclical, the Merc's Sandner is confident that currency activity at his exchange will recover when the dollar rebounds. He disputes bankers' claims that they've gained market share. But unless the Merc can become more competitive, its malaise could well become permanent.

By Greg Burns in Chicago

RAY VELLA/BW

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REAL SOLUTION
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REAL RESULTS
Placement time reduced 50%

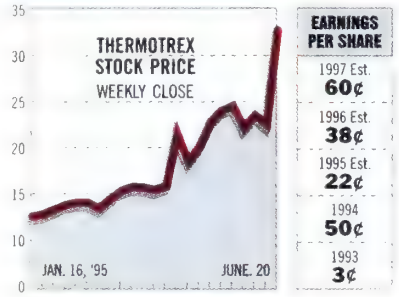
BY GENE G. MARCIAL

THERMOTREX: WAY PAST HAIR-REMOVAL

Is there a second act to a stock that has quadrupled in price since the start of the year? That's the question asked by folks who failed to buy into Thermolase (TLZ), now trading at 21 a share. Investment manager Bill Harnisch bagged it early on—and now thinks there's a still better buy: ThermoTrex (TKN), which owns 70% of Thermolase.

"ThermoTrex has the promise of a double home run," says Harnisch, president of Fortsmann-Leff Associates, with assets of nearly $3 billion.

AIMING FOR X-RAYS AND RADAR



▲DOLLARS
DATA: BLOOMBERG FINANCIAL MARKETS, OPPENHEIMER & CO

There's nothing wrong with buying just Thermolase, Harnisch says. Its laser technology, patented and recently approved by the Food & Drug Administration, zaps unwanted hair. "But with ThermoTrex, you get not only the play in Thermolase but the added sizzle" that he sees in ThermoTrex' prospects. ThermoTrex hasn't been a wallflower. Its stock has zoomed from 12 to 32—and about 27 of the current price reflects the value of its Thermolase holding.

The big sizzle in ThermoTrex is its LORAD division, which makes low-dose X-ray mammography gear and needle biopsy systems for detecting breast cancer. It has 36% of the market.

Harnisch expects ThermoTrex will soon take public—or spin off—part of its LORAD operation, which he thinks is worth at least 8 a share. The division provides 80% of ThermoTrex' revenues and all the earnings. Harnisch figures it has cash of $52.5 million, or $4 a share, and other assets worth another $5 a share.

ThermoTrex is also developing high-tech products, mainly for the military: a microwave camera that lets pilots see through fog and clouds, a detector that warns in advance of wind shear, and ultrahigh-range laser radar.

Harnisch sees ThermoTrex stock hitting 150 in two or three years. "The prospects for both Thermolase and ThermoTrex are open-ended," he says.

Oppenheimer analyst Leah Rush Cann agrees: Mammography leader ThermoTrex is developing the next two generations of gear that will produce "better results and be less uncomfortable for the patient," she says.

Cann thinks ThermoTrex revenues will grow 20% to 30% annually for the next few years, with operating margins expanding strongly.

ATTENTION, KMART SHOPPERS

It isn't often that financial sleuth Howard Schilit turns bullish—especially on an outfit that has ousted its CEO and is trying to restructure. But Schilit is high on Kmart (KM), whose board dismissed chief Joseph Antonini in March and just hired Floyd Hall, former head of rival Target Stores. The Street has shunned Kmart, following two years of disappointing results. Shares are at 14, down from 21 in 1993. So what's turning Schilit on? He smells a turnaround.

True, Kmart continues to report losses from operations, but there have been "positive developments," says Schilit, an accounting professor at American University and president of the Center for Financial Research & Analysis. Upbeat factors include a rise in first-quarter sales of 8% overall and 9.4% for general merchandise.

Kmart's sales base "is jumping." This, Schilit believes, is an "early indicator of success in a turnaround."

Ordinarily, Schilit takes plunging margins as a sign of trouble. At Kmart, however, the drop—from 25.4% in 1994's first quarter to 22.2% in the quarter ended Apr. 30, 1995—was largely due to costs related to launching an advanced accounting system. He finds this investment in technology highly encouraging. Kmart has also resorted to aggressive price discounts to lure shoppers—a necessary step, Schilit notes, for long-term success.

Kmart suffered a precipitous drop in operational cash flow, from $1.13 billion in 1993 to a mere $76 million in 1994, forcing it to sell subsidiaries and other assets. But cash flow will rebound a sales pick up, says Schilit, and he view the sell-offs as part of a "sound strateg to return Kmart to core retailing."

Most of all, Schilit is full of prais for the "lack of financial shenanigans and Kmart's "conservative accounting —telling it like it is, he thinks.

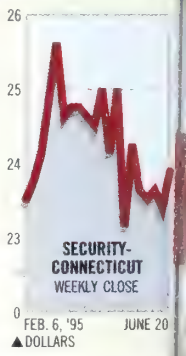
AN INSURER YOU CAN BANK ON?

One of the big games on the Stree these days is spotting stocks likel to be takeover targets in anticipation c the demise of the Glass-Steagall Ac This law bars banks from underwritin securities or owning insurance compa nies. And brokers are banned fro commercial banking.

The manager of a large New Yor hedge fund thinks he has found on Security-Connecticut Life Insuranc (SRC), whose principal products ar term and universal life-insurance pol cies—with about $30 billion in force— and annuities, where it has $600 millic in assets.

He believes Security-Connecticut mix of business will be tempting to bank because the markets for ann ities and universal life insurance are growing much faster than bank deposits. "In a merger or takeover, Security-Connecticut would be worth 40 to 50 a share," says this pro. A takeover wouldn't be new to Security-Connecticut: It was acquired by Lincoln National in 1979. In January, 1994, Lincoln took it public at 22 a share. It's now tradi at 24.

GROWTH AHEAD IN LIFE POLICIES



▲DOLLARS
DATA BLOOMBERG FINANCIAL MARKE

Even with no takeover, Securi Connecticut is "a very attracti stock," says Ed Wachenheim III, cha man of Greenhaven Associates in P chase, N. Y. "It's a well-managed a high-quality company whose stock mains undervalued." He sees the co pany making $3.35 a share this y and $3.75 next, up from 1994's $3.

A year out, he's betting the st will sell at 11 to 12 times his projec 1966 earnings, or 41 to 45 a share.

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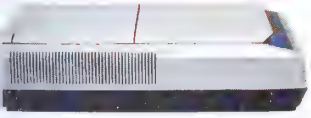

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RESEARCH & DEVELOPMENT

BLUE-SKY RESEARCH COMES DOWN TO EARTH

With budgets lean, R&D is focusing on what customers want now

For your average General Electric Co. researcher accustomed to the quiet, contemplative life in Schenectady, N. Y., being a member of a "one-coffeepot" product-development team is no tea party. The teams unite GE researchers, manufacturers, and marketers in a single location, where they can sweep away obstacles to a new lightbulb or locomotive as they swill hot java.

Trouble is, this exciting opportunity to team up with far-flung comrades might just involve a few months in a Waukesha (Wis.) motel. Lonnie Edelheit, GE's senior vice-president for research and development, says most of the company's researchers have embraced the one-coffeepot concept. In any case, he says, there's no alternative: "Speed means change. Everybody's got to understand that."

That's research and development in the '90s. Every year the belt gets tight-

ROCKWELL INTERNATIONAL is working with Russia's supersonic-jet maker, Tupolev, on how to smooth the airflow over a future American supersonic passenger plane

er and the pressure for r
sults increases. Tru
the 900 companies
BUSINESS WEEK's a
nual R&D survey spe
4% more in 1994 th
the same companies c
the year before. But a
justed for inflatio
their spending rc
just 2%—the seco
year of anemic grow
While spending seems to be picking
again for 1995, no one is counting o
return to the boom years of the 1980

Exacerbating the slowdown in cor
rate R&D is the budget-cutting in Wa
ington. Congress may reduce fund
for basic research, in addition to tak

R&D Growth Slows In Real Dollars

▲PERCENT CHANGE IN 1987 DOLLARS

DATA: STANDARD & POOR'S COMPUSTAT, A DIVISION OF THE McGRAW-HILL COMPANIES

Who Increased and Who Declined

	NOMINAL PERCENT CHANGE 1993–94	1994 R&D SPENDING MILLIONS	AS PERCENT OF SALES	R&D PE EMPLOYE
ELECTRICAL & ELECTRONICS	14%	$9,602.7	5.7%	$8,257.
AUTOMOTIVE	11	15,255.5	3.8	9,257.
MANUFACTURING	10	4,567.6	2.8	4,409.
CONSUMER PRODUCTS	9	2,588.0	1.5	2,414.
FOOD	9	684.9	0.8	1,566.
HOUSING	8	533.1	1.7	2,742.
SERVICE INDUSTRIES	7	213.9	1.3	1,431.
CONTAINERS & PACKAGING	7	188.8	0.8	1,299.
HEALTH CARE	5	13,476.0	9.8	18,451
LEISURE TIME PRODUCTS	5	1,528.9	4.3	6,478
TELECOMMUNICATIONS	4	4,099.0	3.3	7,137
PAPER & FOREST PRODUCTS	4	548.1	1.0	2,017
OFFICE EQUIPMENT & SERVICES	–1	16,746.3	7.1	15,898
METALS & MINING	–1	385.8	0.7	1,451
CHEMICALS	–2	4,973.5	3.7	10,289
AEROSPACE & DEFENSE	–5	3,969.2	4.2	7,106
CONGLOMERATES	–5	2,960.8	2.4	5,011
FUEL	–9	2,405.8	0.7	4,267
ALL-INDUSTRY COMPOSITE 1994	4	84,727.8	3.5	7,651
ALL-INDUSTRY COMPOSITE 1993	4	83,023.6	3.8	7,476

DATA: STANDARD & POOR'S COMPUSTAT

R&D's Biggest Spenders

BY TOTAL SPENDING

	1994 R&D EXPENSES MILLIONS
GENERAL MOTORS	$7,036
FORD MOTOR	5,214
IBM	3,382
AT&T	3,110
HEWLETT-PACKARD	2,027
MOTOROLA	1,860
BOEING	1,704
DIGITAL EQUIPMENT	1,301
CHRYSLER	1,300
JOHNSON & JOHNSON	1,278

BY SPENDING PER EMPLOYEE

	1994 R&D EXPENSES PER EMPLOYEE
1 BIOGEN	$210,654
2 GENETICS INSTITUTE	114,943
3 GENENTECH	112,030
4 IMMUNEX	102,719
5 AMGEN	91,266
6 S3	82,548
7 CYRIX	80,113
8 ADOBE SYSTEMS	70,993
9 PLATINUM TECHNOLOGY	69,787
10 ALTERA	68,956

AND IN RELATION TO SALES

	1994 R&D EXPENSES AS PERCENT OF SALES
1 GENETICS INSTITUTE	82.6
2 BIOGEN	65.0
3 PLATINUM TECHNOLOGY	54.2
4 IMMUNEX	53.7
5 CHIRON	44.7
6 GENENTECH	40.8
7 CONTINUUM	34.3
8 VIEWLOGIC SYSTEMS	30.8
9 ALZA	29.2
10 MacNEAL-SCHWENDLER	29.2

DATA: STANDARD & POOR'S COMPUSTAT, A DIVISION OF THE McGRAW-HILL COMPANIES

at such popular items as the Com-
e Dept.'s Advanced Technology Pro-
n and the Defense Dept.'s Technolo-
Reinvestment Program—both of
h are aimed at helping industry do
amental research that they could
otherwise afford. As corporations
n to focus on short-term R&D in the
s, they counted more than ever on
ral science funding to lay the
ndwork for future generations of
ucts. That strategy won't work so
anymore, which worries people like
uel H. Fuller, Digital Equipment
.'s vice-president for corporate re-
ch. "Computer and communications
nologies could suffer," he says. "My
is that they don't unnecessarily
off future innovation."

RE JOY." The good news is that com-
es continue to make progress in get-
more bang for the R&D buck
ugh closer collaboration with busi-
units, more openness to external
ces of technology, and investments
oor-saving computers and measuring
oment. Pittiglio Rabin Todd & Mc-
h, a Weston (Mass.) consulting firm,
ed seven major electronics compa-
and found that the share of product
nue coming from new products shot
om one-third in
to 45% last
And they did
thout spend-
gobs on R&D:
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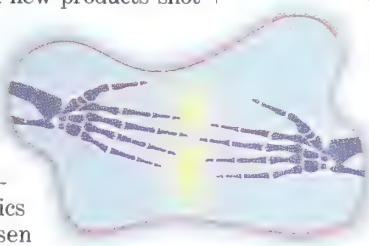
of R&D effec-
ess for electronics
anies has risen
hird since 1992.
ter 1994's R&D
e, there are even
that companies are
ning interest in re-
h that is aimed at
nue growth rather
just cost-saving. The resurgence of corporate profits has given them some breathing room. Indeed, the R&D trends forecast of the Washington-based Industrial Research Institute "indicated some optimism this year for the first time in about four years," says Executive Director Charles F. Larson. "There's a lot more joy in the ranks these days."

GENERAL ELECTRIC gathers employees from R&D, manufacturing, and marketing in "one-coffeepot" teams that clear away obstacles to product development

If not joy, at least acceptance. DuPont Co.'s senior vice-president for research, Joseph A. Miller Jr., isn't complaining about the 8% decline in 1994 in DuPont's R&D spending. "I don't expect those constraints to continue, but I think they've been good for us," Miller says. "They've forced us to focus more. We're pressed on relevance."

While wielding the carving knife against programs deemed irrelevant, DuPont has continued building up capabilities in core businesses. It's putting special emphasis on using advanced diagnostic and measurement gear. It's a co-sponsor of the Advanced Photon Source at the Energy Dept.'s Argonne National Laboratories in Argonne, Ill., which will be the source of the world's brightest X-rays when it starts operating next year. The extremely brief X-ray pulses should let DuPont researchers see for the first time how crystals form in a fiber, for example. Says Miller: "We can't wait for that baby to get started."



DUPONT is betting on the Advanced Photon Source, source of the world's brightest X-rays, to give it brand-new glimpses into the structure of molecules

Not that it takes megadollar equipment to gain insight into a product. Lotus Development Corp. needed nothing more than a little space on some of its customers' hard disks. Some 150 buyers of Lotus' Ami Pro word-processor agreed in 1993 to have their every keystroke captured in a special file, where it could be analyzed later by Lotus programmers. That led to the discovery that customers wasted lots of time clicking "skip" every time their spelling checker hit a strange word. The new version of Ami Pro, named Word Pro, will highlight the suspect words on the screen so there's no need to "skip." The writer clicks only on the words that really might be misspelled.

CONSOLIDATION. Eastman Kodak Co. found its own way to economize—by consolidating 23 different designs for scanners into six. The proliferation was an unintended result of the independence given to Kodak business units. Now, units can still doll up the basic scanner designs for special customers, but they're all starting with the same main components. Says James W. Meyer, Kodak's chief corporate technical officer: "There's no need to go back to earth, air, fire, and water with each one of these."

Nor is there a need to come up with every new product internally. Rockwell International Corp. has more than 200 formal relationships with universities, government labs, and the like, and has gotten some of its best ideas from places like China and Russia. For instance, a Russian institute is helping Rockwell

understand how to make a stronger, lighter metal by adding small amounts of lithium and copper to aluminum. Such a metal could go into Rockwell's entry in the competition for a successor to the space shuttle. Rockwell is also teaming up with Boeing Co. and NASA on a project with Tupolev, maker of the Russian supersonic transport. The partners have taken a TU-144 supersonic jet out of mothballs and are flying it to see how air flowing around the plane becomes turbulent at supersonic speeds—vital to the design of a future American supersonic plane.

The theme at every company is to tie R&D more closely to business needs. GE-style teams are one way: A Booz-Allen & Hamilton Inc. study found they dramatically reduce wasteful "churn" in product requirements. To understand what customers might want in an electric car, General Motors Corp. had its research engineers accompany Los Angeles commuters as they drove to work. Hercules Inc., the Wilmington (Del.)-based specialty chemicals company, pulled back on a plan to start a biotechnology business and decided instead to use biotech to improve production of existing products.

At central labs, meanwhile, blue-sky research has clouded over. Says GE's Edelheit: "We used to do a lot more long-range research, but one definition of 'long range' is 'never.' We're not worrying about, say, the size of the universe, because that's a 'never.'"

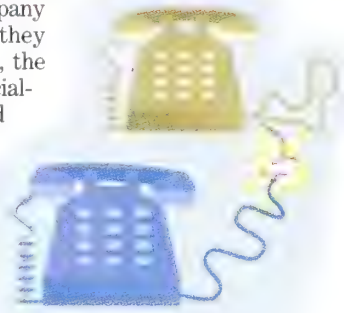
Ditto at Nynex Corp. The Baby Bell's researchers used to do world-class work on making computers recognize han writing, but that's been canceled. I stead, Nynex Science & Technolo President Casimir S. Skrzypczak pr fers to brag about how company r searchers helped the Nynex phone bu ness reduced the number of phone lin that malfunction in early summer. analyzing trouble statistics, Nynex searchers realized the malfunctions a most common in areas that have den phone usage and lots of customers co ing and going—so lines of marginal qu ity are often in service.

The researchers' analysis defied c ventional wisdom and is helping Nyn to set priorities about where to upgra its wiring. "This is not something tha going to win you a Nobel prize, but impact on the company is sizabl Skrzypczak says. Indeed, Nynex spe about $350 million last year on solv line problems.

Companies still like to brag ab how much they spend on R&D—i way they don't brag about, say, spe ing on salaries or raw materials grass seed for headquarters. That's cause well-focused R&D generally p off in long-term revenue growth profits. On the other hand, more isn't ways better.

Just take a look at the une record of companies that have led B NESS WEEK's rankings of R&D spend per employee since 1984 (table). not an issue of long-term vs. sh term research. The key is to make s that R&D plays its proper role the engine of a well-balanced co rate machine.

By Peter Coy, with Joy Billups Lars Hansen, in New York



NYNEX won't win a Nobel prize for figuring out why phone lines go bad, but the research could save big bucks: Nynex spends $350 million a year on fixing line problems

Top Dogs: Where Are They Now?

Heavy spending on R&D often leads to growth and prosperity. But not always. Take a look at past leaders in BUSINESS WEEK's rankings of R&D per employee (excluding biotech companies, whose figures are inflated by drug-trial expenses).

Company	R&D per Employee
XONICS *Des Plaines, Ill.* Socked by price-cutting, the maker of X-ray gear filed for Chapter 11 in 1984, making its top spot in the BW rankings a statistical anomaly. In 1985, it was bought by Allied Products for less than $5 million in cash and stock.	**1984:** $92,347
SOFTWARE PUBLISHING *Santa Clara, Calif.* The maker of Harvard Graphics presentation software diversified unsuccessfully and lost share to Lotus, Microsoft, and others. It's refocusing on Harvard Graphics spinoffs after big losses.	**1985:** $33,914 **1991:** $78,109
TRANSITRON ELECTRONIC *Woburn, Mass.* Founded in the 1950s as one of the first high-tech companies along suburban Boston's Route 128, Transitron found success transitory. Heavy debts caused by failed ventures in integrated circuits forced it to dissolve the year it made No. 1—another statistical anomaly.	**1986:** $66,450
CHIPS & TECHNOLOGIES *San Jose, Calif.* C&T thrived in the 1980s as the first company to develop a set of chips for personal computer clonemakers. But once others figured out how to clone PC chips, C&T went into a swoon. It has regained profitability by focusing on graphics-display chips for laptops.	**1987:** $48,000 **1988:** $60,828 **1989:** $67,373 **1990:** $68,456 **1992:** $86,137
S3 *Santa Clara, Calif.* S3 is booming as a creator of multimedia chips for personal computers. Compaq Computer recently announced it would use S3's accelerator chips to deliver TV-quality video on PCs for sale this Christmas.	**1993:** $80,132 **1994:** $82,548

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The complete BUSINESS WEEK R&D Scoreboard with inf mation on 900 companies will be available via BUSI WEEK Online on the America Online computer service order printed copies, send $5 to BUSINESS WEEK R&D S board, 1221 Avenue of the Americas, 39th floor, Ne York, N.Y. 10020.

TED BY OTIS PORT

BREAKTHROUGH OM 212 B.C.

AINS THAT FLOAT ON gnetic fields while zip- g along at airplane eds, and frictionless l bearings that never d oiling—these are of the dreams prom- d by so-called high- nperature supercon- tors. To move those ions closer to reality, earchers at Israel's izmann Institute of ence are harnessing ,000-year-old a.

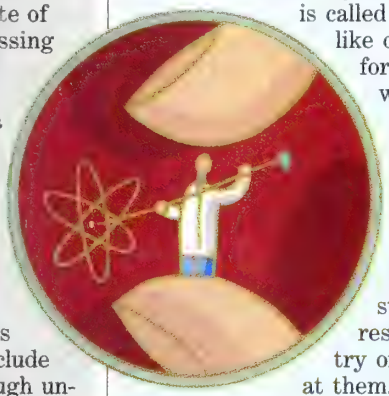
Shimon Reich, a izmann chemis- professor, be- es the key to king better erconductors rocessing ed—instantly ting the various redients to preclude ir passing through un- irable intermediate ses. But he tried eve- high-tech furnace he ld find, with no luck. Then Reich turned to a ror like the one Archi- les supposedly used in B. C. to focus the 's rays and torch the nan ships blockading acuse.

The parabolic mirror at zmann's solar-power er concentrates the s energy into a super- beam that instantly ts the materials, says h. Although he is exploring the tech- ie's promise, Reich already produced pounds based on ium-barium-copper- e that can carry a ent of 40,000 amperes square centimeter. t's roughly 100 times e than the same ma- ils after conventional essing.

NANO-NEEDLES TO TAILOR MOLECULES

IMAGINE DIPPING AN ULTRAFINE QUILL PEN INTO PLATINUM ink, then using it to transform the chemical structure of individual molecules. In essence, that is what chemists at Lawrence Berkeley Laboratory Materials Sciences Div. have just done. Their feat signals the dawn of "nanocatalysis"—a technology that could allow chemical reactions to be triggered molecule by molecule.

Until now, most research in nanotechnology has centered on tracing the atomic surface of materials, using a new breed of microscope with a supersharp needle that can pick up the contours of atoms like a phonograph's stylus following the grooves in a record. The instrument used by the Lawrence Berkeley scientists is called an atomic-force microscope. It's like other such microscopes, except for one thing: Its point is coated with platinum, a common catalytic agent.



When the researchers touched the needle to an azide molecule, the platinum catalyzed a reaction, turning the azide into an amine molecule. Says Peter Schultz, the senior staff chemist who's leading the research: "Now we can do chemistry on surfaces instead of just looking at them." Developing nanochemistry to work with other catalysts and molecules, says Schultz, could point the way to custom-made materials with unique industrial applications, including new semiconductor materials.

GETTING RID OF THE GRID IN NET SWITCHES

HIGH-SPEED ASYNCHRONOUS transfer mode switches that handle voice, video, and data simultaneously are the next big thing in telecommunications. The trouble is, they're expensive. They're based on the "crossbar" design—a grid where rows of input lines cross columns of output lines. And every junction point needs its own computer-chip traffic cop.

Now, MMC Networks Inc. in Santa Clara, Calif., has come up with a new design that it says could cut the cost of ATM switches by 90% within five years. The idea: Get rid of the grid, with all of its chips, and instead use one big bank of shared memory. All the input lines dump their bits into this pool, and the computer tells an output line to pick up its "mail" at a specific digital address.

In the past, designers have shied away from this concept because it seems to require an impossibly wide pathway, or bus, to shuttle bits in and out of the memory. But MMC Chief Executive Prabhat K. Dubey says he has discovered a way to get around that problem. Dubey declines to discuss details while a U. S. patent is pending, but several blue-chip switch manufacturers have already committed to buy MMC's chip sets.

INNOVATIONS

■ SEVERAL MAKERS OF GOLF carts are adding links—so to speak—to the global positioning system (GPS), the satellites that helped allied tanks navigate the Iraqi desert in the Persian Gulf War and is now helping drivers find their way through unfamiliar streets. Park these carts near a ball, and the GPS screen shows the distance to the flag—accurate to within a few feet. Some golf-course managers say that by removing uncertainty about distance, the carts speed up play and make way for additional golfers.

■ An international team of gene sleuths has nabbed the faulty DNA that causes ataxia telangiectasia (AT), a fatal disease that strikes early in childhood (BW—May 22). The gene appears to be similar to those that are involved in DNA repair, which may be why the 1 in 100 people born with only one flawed copy of the gene–and who thus escape AT–are at increased risk of cancer.

■ Teflon does more than let you fry eggs without butter. With chemical modifications, University of Buffalo scientists say it could provide a surface to help damaged nerves regenerate.

■ Crops can be "green" even after turning brown. Chemist Wayne Marshall at the Agriculture Research Service's New Orleans lab is turning crop wastes into granules that soak up toxic metals from industrial wastewater. Soybean hulls work best.

(L TO R) ILLUSTRATIONS BY JOSE ORTEGA; PETER ALSBERG

TELECOMMUNICATIONS

THE BEEP HEARD 'ROUND THE WORLD?

Japan's minicellular phone aims to conquer Asia first

In the black marble lobby of Tokyo's Westin Hotel, employees get their marching orders from wireless phones about the size of cigarette packs. In Kuala Lumpur, a professor uses a similar phone to call a student across campus. At the National University of Singapore, a researcher tries hooking the same gizmo to a videophone.

Each is using Japan's new entry in the worldwide mobile-phone sweepstakes. Called PHS, for "personal handyphone system," this so-called minicellular phone makes its official debut on July 1. It is Japan's first homegrown telecommunications technology—a low-powered, low-cost variation of cellular that can work both as a mobile phone and as a cordless phone in a home or within an office building. Some 33 Japanese companies are making PHS gear, and the technology is being pushed by the powerful Ministry of Posts & Telecommunications. Tokyo newspapers are choking with PHS ads and bullish forecasts—7 million Japanese subscribers by 2000.

Reaching that number would be impressive anywhere, but especially so in Japan, where the penetration rate for conventional cellular is low—4% of the potential market, vs. 8% in the U.S. But PHS has some big advantages. It transmits from small, low-power base stations that can be mass-produced and slapped up on walls, telephone poles, and buildings, making PHS ideal for use in the house and around the neighborhood. Low power also means that phones can be smaller and cheaper, and calling rates will be about half those of Japanese cellular—starting at around 2,700 yen ($32) per month and 20 yen (25¢) per minute. The trade-off is calling range: Each minicell in the PHS network covers up to 2,000 feet, compared with 10 miles for conventional cellular.

CHURNING OUT SETS. But Japan's PHS frenzy is being fueled by more than the domestic market. PHS could be an ideal low-cost local-phone system—just the thing for millions of homes throughout Asia, where phones are still a rarity. The potential payoff is huge: Over the next five years, China, Malaysia, Thailand, and other Asian nations pla pump $300 billion into new phone frastructure. Industry experts say market for PHS-style minicellular se in Asia could be $100 billion by 200

But PHS won't be allowed to ove Asia unchallenged. Japan's techno is one of several minicellular syst Others include Digital European C less Telephone (DECT), now underg trials in Porvoo, Finland, and the sonal Communications Services (system, which will start rolling ou the U.S. by the end of this year.

Being first out of the gate may PHS the edge in Asia. Japan's PHS e ment makers will soon be enjoying cost advantages of high-volume pro tion. Toshiba Corp. and NEC Corp. are already churning out 30,000 h sets a month. Prices are now 30,000 to 50,000 yen ($350 to $580), about same as cellular handsets in Japan are expected to drop by half in the several months.

HANDYPHONES

STRENGTHS

- More base stations means high capacity, low cost per call
- Lower power means longer battery life for handsets

CORDLESS CONCIERGE: *Tokyo's Westin Hotel is equipped with PHS*

WEAKNESSE

- Mobility limited to low city-driving o walking spee
- Not economic except in citi that are dens populated

Base stations are ing off production at a rapid clip, too. first three services– Personal Commu tions Network, DDI Astel—anticipate will buy more than 100,000 by March, when they expect to be -150 cities. If PHS takes off as plann Japan, falling prices could spur gr volume. "The whole thing could be snowball," says Gerard A. Dennis, engineer for Nippon Motorola which makes PHS base stations for

The entire effort is getting a big from the government. The Minist Posts & Telecommunications has di PHS licensees to cover half of Ja population within five years and is ing behind the scenes for the lowes

prices for both service and equip-
t. So far, the plan seems to be on
k. NTT Personal signed 20,000 sub-
ers in Tokyo in just six weeks and is
ing 1,000 inquiries a day.

/hat could derail the PHS plan?
ging cellular prices, for starters.
es of cellular sets have dropped by
since last April's deregulation of
ice providers, which have been pick-
up subscribers at an annual rate of
000 ever since. And while PHS will
k only in areas crammed with base
ons, cellular will allow calling every-
re. Which is why Toshiyuki Nishiha-
ead of NEC's mobile-communications
sion, sees PHS sales hitting only
000 handsets per year by March of
, about half the government's pro-
ed number. "It will grow, but not
st as people seem to imagine," says
ihara.

s for the rest of Asia, Japan
ldn't count out the competition. The
r camp is planning "dual-use" hand-
that would be able to switch be-
en DECT minicellular networks and
a European digital cellular format
l in 90 countries, including every
n nation except Japan and South
ea. One problem: The phones will
twice as heavy as a single-mode
lset. Still, DECT backers are pushing
l with promises of dual-use systems
2000. If the PHS camp can't match
capability, the Europeans are likely
eat them in Asia, asserts Anssi Van-
senior vice-president at Nokia Mo-
Phones Inc.

AL SHOT? Japan's PHS push has
ted friction with some European
U.S. equipment makers. They al-
that NTT is determined to leave
gear out of a 1992 agreement under
h foreign and domestic suppliers
supposed to get an equal shot at
ng gear to the phone giant. NTT's
ion is that NTT Personal is a private
pany—and one that's 5% owned by
eign outfit, Britain's Cable & Wire-
PLC. Plus, Motorola is already a
r supplier. But other foreigners, in-
ng AT&T, are miffed. They charge
the Japanese government still holds
of NTT, which directly or indirectly
; 61% of NTT Personal, so it should
e exempt from the 1992 pact. The
ricans may push for the U.S. Trade
esentative to find Japan in violation
e telecom provisions in Section 1377
.S. trade law.

eanwhile, the PHS push is gathering
n—and not just in Asia. Takayoshi
ano, a manager of overseas plan-
at NTT, has traveled to Argentina
Chile to get PHS into the minicellu-
ompetition there. Next stop?

By Larry Holyoke in Tokyo, with bureau reports

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COMPUTERS

IT'S ALL IN THE PACKAGING

Panda's PC modules are impressive. So is its self-promotion

You don't see many computer-systems startups nowadays. Rarer still are ones that throw lavish coming-out parties. That's a throwback to the '80s, when dozens of new PC makers, flush with venture money, spent big to grab the spotlight. But Panda Project Inc. isn't ordinary. During the PC Expo trade show in New York in late June, the obscure Boca Raton, Fla., startup threw a bash for analysts and reporters at the Temple of Dendur in the Metropolitan Museum of Art.

CEO CRANE: *Promising technology, a sizzling stock, but few customers*

But what's really striking about Panda—named for the secretive nature of the Asian bear—is the performance of its stock. Since going public in May, 1994, Panda shares have skyrocketed nearly sixfold, to 32 on June 16—despite no revenues, no earnings, and a current cash-burning rate of $500,000 a month.

MIX AND MATCH. Panda's promise is the work of founder and CEO Stanford W. Crane Jr., a former AMP Inc. executive. His inventions for connecting the components within a computer, he says, can deliver big improvements in performance and reliability. How? By breaking a PC "motherboard" into separate modules for the microprocessor, memory, and communications sections—then connecting them with Panda's Compass technology, a superfast cable. That could let customers switch from an Intel chip to a DEC Alpha or a Motorola/IBM PowerPC—without changing computers. The first machine with the technology, Panda's Archistrat 4s server, features color-coded modules that snap in like Lego blocks. "I got excited because I finally saw something that could change the way the architect could lay out the PC," says Panda director Joseph A. Sarubbi, once manager of new products at IBM.

Crane's second invention involves the chip carrier, which connects a chip to a circuit board. The technology makes possible carriers with far more pins to attach to the circuit board—which means data can travel between the chip and the circuit board much faster. And that allows computer designers to take full advantage of the speediest chips.

"I think it's a very exciting concept," says Douglas J. Bartek, president of a subsidiary at chipmaker Cirrus Logic Inc. that is testing Panda's technology. Crane, who has licensed his connector technology to 3M Co., says he is talking to many potential customers. CompuCom Systems Inc., a PC distributor, will sell Panda servers. Such versatile PCs should appeal to the big companies CompuCom sells to, says Dataquest Inc. analyst Brad Day. "I would not be surprised if [Panda] goes from nowhere to $120 million by the end of '96," he says.

Certainly, that's what investors believe. The company, whose 90 employees ope out of the same complex where the Entry Systems Div. hatched the PC years ago, likes to emphasize the allels with the wildly successful IBM In addition to Sarubbi, Crane has cruited H. L. "Sparky" Sparks, a mer IBM PC marketing whiz, and Br Smith, Panda's vice-president of e neering, who worked on the IBM PC

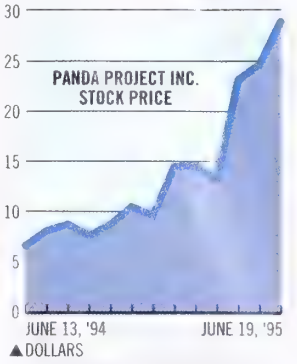
Panda's stock has been on a spec ular ride. The underwriter was W Securities Co., a N York brokerage spe izing in low-pri stocks. Helix Inc., a nadian venture-cap firm with ties to Wl has an 11% stake, the June product lau neared, the thinly t ed shares spiked— though Crane conc he needs new finan perhaps a secondar fering, within 60 da

Can Panda fly as as its stock? Some questions remain. is whether PC ma will pay a premium its technology wher market is buying re volumes. Also, Pan taking on a lot—ge into systems and packaging simult ously. Says industry consultant Wohl: "This product looks really inte ing, but I'd be a lot happier if they more focused." Crane says he had to systems to prove his technology wo

There are questions about Crane His previous startup, Crane Electr Inc., filed for bankruptcy and the i tors who rescued it sued Cran breaching an employment contract suit was settled and, says Crane, " absolutely nothing wrong there. chose Whale becau did not want to control to venture talists, he says, an underwriters touch an early-s company. Now, Panda's market c $183 million, C 36% stake gives $66 million pape tune. It could tur the real thing i bear can survive computer jungle.

By Peter V Dapena in Boca R Fla., with bureau

NOT A BEARISH STOCK



DATA BLOOMBERG FINANCIAL MARKETS

ONS

AN A NEW LEADER BRING ABOR BACK TO LIFE?

h rivals for AFL-CIO chief plan vigorous membership drives

ost employers don't worry too much about un- these days. But uld be a mistake vrite off orga- l labor as dead buried. After e than a decade omplacency, dis- tled union chiefs June 12 finally d AFL-CIO Presi- Lane Kirkland nnounce his re- ment and make for a more vig- s leader. The men vying for job, Thomas R. ahue, the Feder- n's No. 2, and J. Sweeney, of the fast-growing service-em- ees' union, have similar plans for ving labor. They intend to dramati- increase efforts to seek new mem- And they hope to use the top post pulpit to make unions more visible.

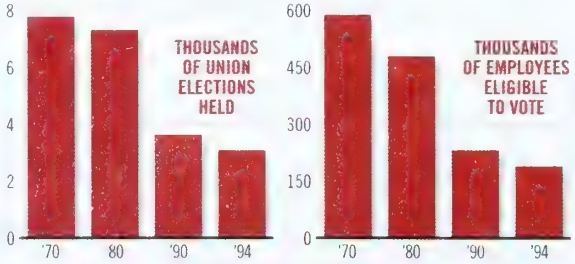
SWEENEY: *The ranks of his union have doubled since 1980*

DING WATER. Whoever wins, his ac- could help stop the shrinkage of ns—to 15.5% of the workforce from 15 years ago. Already, more than a n unions, such as the clothing work- and Sweeney's union, have major nitments to membership drives. r success shows that workers will f unions put enough energy into re- ment. "Who the president of the CIO is—and his commitment of re- es and vision—makes a big differ- in unions' ability to win new mem- " says Kate Bronfenbrenner, a ell University labor expert.

ganizing is an intimidating task. loyers illegally fire union support- n a third of all elections held to new unions, studies at the Univer- of Chicago show. And downsizings that labor must find more new rents just to avoid shrinking. In for instance, unions grew by 00 members, the second year of th after 14 years of decline. But their share of the workforce slid slightly anyway. Small wonder unions mount half the elections in private industry than they did in the 1970s (chart).

Still, some leaders demonstrate that labor doesn't have to accept the status quo. The best performer is Sweeney's union, which has nearly doubled in size since 1980, to 1.1 million. Half of that growth came from employee affiliations, usually of public-sector workers, whose employers resist less fiercely than private ones do. But the other half consisted of low-wage, often minority and immigrant workers, such as janitors and clerical and health-care employees—all fast-growing groups in the workforce.

A BIG TIDE TO TURN



DATA NATIONAL LABOR RELATIONS BOARD

How has the union done it? For starters, Sweeney sinks a third of his $53 million annual budget into membership drives, vs. 2% to 4% at most unions. He also has resurrected 1930s-style campaigns that rely heavily on rank-and-filers and turn membership drives into community issues involving church and nonprofit groups. The largest effort, called Justice for Janitors, has embarrassed large real estate owners into lifting pay for office janitors even though most of them work for subcontractors.

Justice for Janitors has signed up 35,000 members in more than 20 cities since 1985. In Washington, the union has held public rallies to protest a $32 million tax break the city gave to large developers, prompting some to agree to union contracts. "The AFL-CIO needs to take the lead in developing new ideas, such as organizing without elections or organizing industries instead of isolated workplaces," says Sweeney.

SOUTHERN BELLS. Other unions have begun to follow suit. The 140,000-member textile-workers union has doubled its spending on organizing since 1990, to 20% of its budget. It racked up more than 6,000 new members in both 1993 and 1994, half of them among low-wage Southern manufacturing workers. New leaders at the historically mob-ridden laborers' union are winning drives at Southern chicken-processing plants.

And the Teamsters' reformer president, Ronald Carey, put an extra $25 million into organizing, even though he inherited a nearly bankrupt union. This year alone, his union has won 1,600 new members in 14 elections at Overnite Transportation Co. The Teamsters had never gained a member there in the 84 elections held since 1958.

Union membership drives depend heavily on rank-and-filers' sense of momentum and purpose. The Teamsters succeeded at Overnite, for example, only after drivers for other companies got involved. Such participation has been rare in recent years. And one person at the top of 13 million unionists won't single-handedly inspire the troops. But if either Donahue or Sweeney builds on recent successes, he could have a dramatic impact on labor's strength and influence into the next millennium.

By Aaron Bernstein in New York

TOP TO BOTTOM: PHOTOGRAPH BY BARBARA KIRS; CHARTS BY ALAN HASELTON

EDITED BY AMY DUNKIN

PLUGGING INTO MERGER MANIA WITHOUT BURNING YOUR FINGERS

Richard A. Freeman is a happy guy. When IBM grabbed Lotus, the 360,000 Lotus shares he owned as manager of Smith Barney Aggressive Growth soared from 29 to 62—for a more than $10 million profit. "It was a terrific morning," he says. You have to get lucky to be in on such a rich deal, but with merger mania heating up, your chances of profiting from corporate marriages are greater—and you can boost those odds. You can use a limited partnership or fund that does risk arbitrage. Or if you're a stock-picker, you can try to find likely takeover targets before they're bought. Both strategies sound highly risky, but you can take steps to make them safer.

After a heyday in the 1980s, takeover activity dropped in the early '90s. It has surged in the past two years, though, increasing 30% from 1993 to 1994. The action shows no sign of abating, as the June 19 bank megamerger of First Union and First Fidelity will attest. "Companies are much more efficient and ruthless, growth is slower, and it's just uneconomic to keep duplication out there," says Michael Metz, chief investment strategist at Oppenheimer & Co. The current round of mergers differs from the wild leveraged buyouts of the '80s. Most acquiring companies today buy for strategic reasons, to gain access to new markets, products, or economies of scale. And these are mostly friendly deals that are paid for with the stock of the acquiring company.

SMALL MARGINS. One way to play a wave of takeovers is with risk arbitrage. Arbitrageurs mostly buy into mergers after they have been announced. That way, they get the stock for a little less than the acquiring company will pay. If they do enough of these deals, they churn out a decent return. Unfortunately, most arbitrageurs are limited partnerships that require minimum investments in the millions. And in general, individuals can't do arbitrage because the small margins on arb deals would be eaten up by trading costs.

One mutual fund, the Merger Fund, allows the average Joe or Jane to participate with a minimum of $2,000. When it comes to arbitrage, most people think of risk. Surprisingly, though, the Merger Fund is the second-least-risky equity fund rar by Morningstar Mutual F Performance Report. It returned a fairly steady a year since it starte 1989. That's partly beca managers Bonnie Smith Fred Green, like other a remove market risk f mergers by selling short stock of the acquiring pany while buying stoc the takeover target. way, if the acquirer's s drops, which it comm does during and after a ger, the fund has locke its return.

Say A Corp., trading a share, buys B Corp., tra at $5, in a stock transac Merger buys B at $5 a s and will earn $1 when merger is complete. By se A short, however, or selli at $6 a share, Merger l in the $1 per share pr

INVESTING If they're good buys based on fundamentals alone, you'll make money on them even if there's no takeover

ver, it also sacrifices any fall if A's stock rises. can't have it both ways," Smith. "If you're trying otect downside, you have e up upside."

rger Fund's managers nvest in deals that yield st a 20% return on an alized basis. For exam- they bought Lotus at BM will pay $64 in cash. er makes $3 on the $61 ment, for a 4.9% return. e deal gets done in two hs as expected, that's on an annualized basis.

FALL PROFITS. "We talk nagement of both com- s, industry experts, Wall t analysts, and competi- says Smith. She tries ck with friendly deals o uncover possible de- ents due to antitrust or regulatory issues. deals get done," says . "Our job is to improve lds even more."

e real windfall profits from speculating or g takeover targets be- deal is announced and ock rises. This is always of a crapshoot, but are ways to better your One is to look to indus- that are consolidating, such as health care, banking, insurance, and defense. After talk of reform, health-care companies started consuming one another in response to pressure to control costs. "Large health-care companies need to be more efficient," says Charles LaLoggia, editor of *Special Situation Report*, a newsletter that identifies potential takeover targets. "One way to achieve economies of scale is by buying smaller companies." Hospitals, for example, are buying specialty-care businesses such as home health-care companies. So LaLoggia likes Ren Corp USA in Nashville, which runs a chain of dialysis centers.

If you don't have the time or money to invest in individual companies, you can buy into mutual funds that specialize in a consolidating industry. James Schmidt started John Hancock Regional Bank Fund purely as an industry consolidation play when the Supreme Court enabled states to deregulate interstate banking in 1985. At an average annual return of 20% a year, it's paying off. Back then, there were 14,000 U.S. commercial banks; now there are 10,500. Schmidt figures the industry will shrink to some 4,000 banks over the next 15 years and tries to buy those that will be bought out.

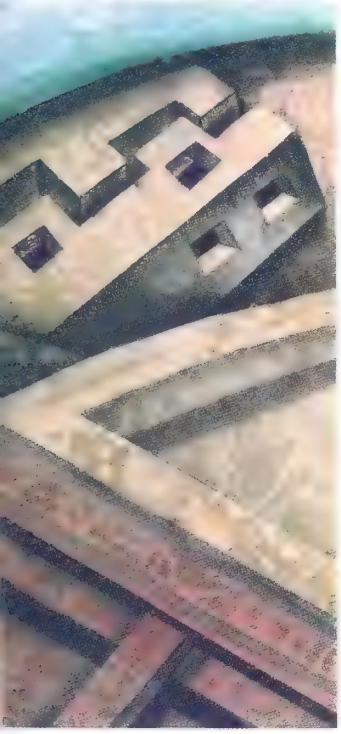
He looks for midsize ($30 billion in assets) and smaller banks that have strong market share, lots of core retail deposits, shareholder-oriented management, and sell at single-digit multiples to 1995 earnings. Some examples are Norwest, First Interstate, and Suntrust. He also likes S&Ls that have recently gone public: they are often cheap but cash-rich.

Other signs of possible targets occur when founding families or controlling shareholders have a reason to sell. Martin J. Whitman, manager of Third Avenue Value in New York, points to St. Joe Paper in Jacksonville, Fla. The Alfred I. DuPont Testamentary Trust, which owns 69% of St. Joe, needed a bigger dividend and forced the company to sell its paper business. On the news, St. Joe's stock rose 14% in March. One clue that a company is likely to go on the block: It announces that it wants to "maximize shareholder value."

Many deal-hunters look for a strong company with weak management. David Katz, chief investment officer at money manager Matrix Assets Advisors, bought gaming company Caesars World because it was selling at 30% to 40% below its industry average. "ITT saw they could leverage that asset better than Caesars' managers could," he says. "For ITT to enter that market, it would have had to spend a lot more. This way, they got a world-class brand name at a reasonable price." Katz bought Caesars' shares about a month before ITT and watched the stock climb more than 20 points.

Mergers are also likely where there are strong synergies between two companies. The Lotus takeover, for one, made lots of sense for both companies. IBM wants to bolster its presence in software and needs Lotus' Notes "groupware" program to compete with Microsoft Corp.'s Windows. Lotus, meanwhile, couldn't fight Microsoft on its own. The deal wasn't cheap, but it made business sense. "They're paying an obscene amount of money," says Katz. "But it would cost them billions to compete with Microsoft. So it was the lesser of evils."

Since you can never be sure a merger will strike, it's best to buy companies that you think will do well even if they aren't taken over. In short, you should adopt a strict value-investing style, buying companies with good balance sheets, management, and assets that are trading below their liquidation value. "We look for the same qualities an acquirer would seek, but we won't pay more than 50 cents on the dollar of what we think an acquirer would pay," says Third Avenue's Whitman. "We buy companies that will do O.K. whether they're bought or not." If you also get lucky and that company is dragged to the altar, you can anticipate many happy returns. *Pam Black*



How to Play the Takeover Trend

Arbitrage Arbitrageurs, who invest in takeover targets after the merger is announced, make money off the spread between the stock price then and when the deal is completed. Most require minimum investments in the millions, but the Merger Fund (800 343-8959) only asks for $2,000.

Speculation Riskier, but potentially more rewarding, is seeking out companies that might become takeover targets. Look at consolidating industries such as banking and health care. Other possibilities: companies with weak managements or niche companies that add synergy to a larger corporation.

Value Investing Money managers who adhere to value investing often turn up takeover targets, usually cash- or asset-rich companies trading below their liquidation value. Value-oriented funds that seek out merger candidates include Third Avenue Value, Michael Price's Mutual Shares Series, Fairmont, and John Hancock Regional Bank.

VIDEO MAPS FOR THE 500-CHANNEL WORLD

In the early days of television, when most anything worth watching resided on Channels 2 through 13, it was a simple matter to determine which shows would air during the week. Tube junkies who had not committed the prime-time lineups to memory merely consulted listings in daily newspapers or *TV Guide* to figure out when to catch Lassie, Lucy, or Lawrence Welk. When cable came along, the what-to-watch decision became more complicated. Still, the print listings remained adequate.

But as the interactive age of TV creeps toward 500 channels, several companies are trying to convince consumers that they need an electronic assist to decipher the schedule. That explains the arrival of a new interactive on-screen programming guide from StarSight Telecast, with others to follow from Gemstar, TV Guide On Screen, Prevue Networks, and VideoGuide. Satellite TV viewers already have such guides. Some of the systems also aim to help folks tackle the familiar problem of programming their VCRs.

CLICK KICK. In part, the companies hope to prey on the video generation's potential anxiety over how much TV it might be missing. Newspapers and magazines, they contend, don't print listings for all channels and aren't up-to-date. The scrolling, noninteractive program guides on cable systems don't pass muster either. These provide viewers with only a few hours of scheduling data, and are slow, besides.

By contrast, subscribers to StarSight's interactive service can display an on-screen grid guide that lets them pore over a week's worth of scheduling information. At the press of a button on a remote control, they can jump to a show that's already on. Viewers may also click on a show's name to bring up a plot summary and its length.

Shows can also be matched to TV watchers' tastes. They can display a menu that will let them choose categories such as movies, sports, or entertainment. Select sports, and the choice might be narrowed to baseball, golf, or soccer. As viewers change channels, they can call up data on programs in progress, including how much time remains in the broadcast. But the greater promise may be StarSight's claim that consumers can record shows at the push of a button, without going through the usual hoops to program the VCR and, sometimes, the cable box.

Consumers must decide, however, whether the extra convenience promised by StarSight is worth paying for. The company's monthly rates range from $3.54 to $4.33. Plus in order to receive StarSight's signal, viewers need to equip themselves with a new TV or VCR. Currently, Zenith Electronics and Mitsubishi offer StarSight-ready TVs, while Samsung and Goldstar make StarSight VCRs. StarSight has also struck deals for future products with Sony, Panasonic, Thomson, Daewoo, Sharp, and Toshiba. StarSight says its technology adds $50 to $100 to the selling price of the hardware.

TELEVISION

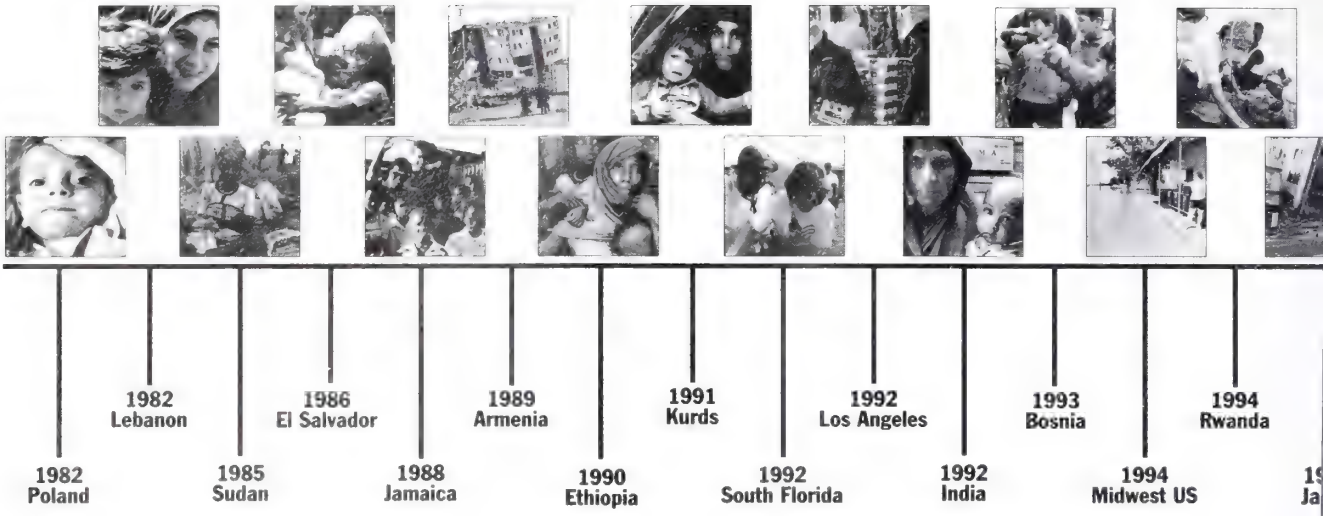
Those who don't want to buy a new television or VCR can purchase a stand-alone StarSight receiver under the Magnavox brand name costing about $149. StarSight is also built into certain cable set-top boxes.

VideoGuide, whose service is due to appear on the East Coast in August, with a national rollout set for the fall, only plans to go through a set-top box, at prices under $100. Besides the usual interactive program listings one-button VCR capabilit the service will include ne wire feeds and sports sco The monthly price is $ for the basic service, v news and sports services ing at least $2.99 to the And Prevue plans to eve ally add sports and wea information to its TV listi

PAY-PER TIGER. TV Guide Screen plans to debut interactive listings in Aug The publisher hopes to suade cable operators transmit the listings at additional charge via the top boxes that are alre leased to consumers. though TV Guide On Sc does not offer one-touch programming, it does pr ise the ability to order per-view programs inst ly and lets viewers se by time, channel, or nam show.

Gemstar, whose VCR P system of instant recor lets viewers punch in the merical codes that ap next to each TV listin local newspapers, will veil GUIDE Plus+ earl 1996. As with StarSi Gemstar plans to build capability into new te sions and VCRs from makers, though Gem says consumers will not to pay a separate subs tion fee.

Gemstar is also workin a nifty indexing and cat ing feature called I Plus+, expected to turn top-line VCR models this tember. The titles of shows recorded with ar dex Plus+ capable VCR appear on the videotape. system can display an screen directory of the corded programs on tape, which enables sumers to fast-forward o wind to the exact spot w the selected show be That's a godsend for addicts who regularly re programs but never around to jotting down it is they're capturing. where is that recordin *Seinfeld*? *Edward*



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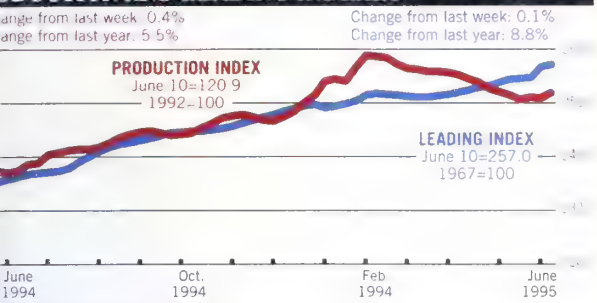
ODUCTION AND LEADING INDEXES



dexes are 4-week moving averages

roduction index rebounded in the week ended June 10. Before lation of the four-week moving average, the index also rose, to 121.4, 120.3. Seasonally adjusted auto and truck production were up strongly e latest week.

eading index rose slightly in the latest week. The unaveraged index fell 56.7 from 262.6, however, as the growth rates of materials prices and estate loans slowed sharply.

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (6/17) thous. of net tons	1,973	1,924#	3.0
AUTOS (6/17) units	130,346	139,227r#	–4.7
TRUCKS (6/17) units	115,968	116,400r#	2.5
ELECTRIC POWER (6/17) millions of kilowatt-hrs.	61,614	64,146#	–10.0
CRUDE-OIL REFINING (6/17) thous. of bbl./day	14,571	14,618#	3.1
COAL (6/10) thous. of net tons	18,118#	18,037	–8.4
PAPERBOARD (6/10) thous. of tons	925.4#	934.5r	3.1
PAPER (6/10) thous. of tons	842.0#	850.0r	–0.8
LUMBER (6/10) millions of ft.	441.6#	345.0	–8.3
RAIL FREIGHT (6/10) billions of ton-miles	23.2#	21.3	0.4

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Forest & Paper Association, WWPA[1], SFPA[2], Association of American Railroads

ADING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
CK PRICES (6/16) S&P 500	536.07	532.91	16.4
PORATE BOND YIELD, Aaa (6/16)	7.37%	7.28%	–7.2
STRIAL MATERIALS PRICES (6/16)	113.8	113.5	NA*
NESS FAILURES (6/9)	305	399	4.8
. ESTATE LOANS (6/7) billions	$484.0	$491.5r	12.2
EY SUPPLY, M2 (6/5) billions	$3,624.4	$3,632.3r	1.5
IAL CLAIMS, UNEMPLOYMENT (6/3) thous.	376	379	4.7

ces: Center for International Business Cycle Research (CIBCR), Standard & , Moody's, *Journal of Commerce* (index: 1990=100), Dun & Bradstreet (failures ge companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on ess failures and real estate loans. *Historical data available from CIBCR.

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (6/21) $/troy oz.	390.700	387.750	0.3
STEEL SCRAP (6/20) #1 heavy, $/ton	140.50	140.50	26.0
COPPER (6/17) ¢/lb.	140.2	137.3	22.2
ALUMINUM (6/17) ¢/lb.	84.3	85.0	23.9
COTTON (6/17) strict low middling 1-1/16 in., ¢/lb.	107.31	107.80	37.0
OIL (6/20) $/bbl.	18.01	18.88	–8.8

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX

EREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
ERAL FUNDS (6/20)	6.01%	5.97%	4.19%
MERCIAL PAPER (6/20) 3-month	5.96	5.93	4.56
TIFICATES OF DEPOSIT (6/21) 3-month	5.92	5.90	4.52
D MORTGAGE (6/16) 30-year	7.82	7.75	8.53
JSTABLE MORTGAGE (6/16) one-year	5.98	5.81	5.49
IE (6/21)	9.00	9.00	7.25

ces: Federal Reserve, HSH Associates, Reuters Holdings PLC

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (6/21)	84.29	84.32	100.15
GERMAN MARK (6/21)	1.39	1.40	1.59
BRITISH POUND (6/21)	1.61	1.61	1.55
FRENCH FRANC (6/21)	4.89	4.91	5.54
ITALIAN LIRA (6/21)	1636.0	1640.5	1570.5
CANADIAN DOLLAR (6/21)	1.38	1.38	1.39
MEXICAN PESO (6/21)[3]	6.250	6.175	3.376

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars

data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense ment. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

TING HOME SALES

ay, June 26, 8:45 a.m. ▶ Sales of ng homes probably bounced back in o an annual rate of 3.42 million. es had fallen in three of the previous nonths, including a 6.4% tumble in when sales totalled only 3.39 million. ome buying has picked up, thanks to mortgage rates. The Mortgage Bankers reports that mortgage applications to ase a home have been rising since ary.

UMER CONFIDENCE

ay, June 27, 10 a.m. ▶ The Confer- Board's index of consumer confidence slipped to 100 in June, according to the median forecast of economists surveyed by MMS International, one of the McGraw-Hill Cos. The confidence reading fell in May, to 101.6 from 104.6 in April. Consumers' assessment of the current economy fell two points, to 114.3 in May, as job losses raised worries about the economy. Another big fall in the present-situation index would suggest that June payrolls did not bounce back much after a 101,000 drop in May.

NEW HOME SALES

Thursday, June 29, 10 a.m. ▶ Like existing home sales, purchases of new single-family homes are forecast to rise, probably to an annual rate of 600,000 in May, says the MMS report. In April, sales fell 2.7%, to a 580,000 pace. So far in 1995, new-home sales are down 12% from their pace of last year. As a result, the inventory of unsold houses is quite high, suggesting little new-home construction in the summer.

FACTORY INVENTORIES

Friday, June 30, 8:30 a.m. ▶ Manufacturing inventories probably were little changed in May. Stock levels had risen 0.6% in both March and April. But the drop in factory output suggests that manufacturers are getting a better handle on their stock levels. That's especially true in the auto industry. The MMS survey forecasts that factory orders rose 0.3% in May. That would be the first gain since January.

Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A

ABN 70
ABN-Amro 42
Access Research 58
Advanced Micro Devices 6
Alcoa 58
Allied Products 78
American Airlines 52
American Express 58
America's Talking 70
America West 52
AMP Electronics 86
Anheuser-Busch 26
Apple Computer 18
ARBY Broadcast Partners 38
Archer Daniels Midland 29
Asea Brown Boveri 40
Astel 82
AST Research 18
Astrum International 26
AT&T 48, 82
Athlete's Foot 56
Axa 40

B

Bain 52
Banco Latino 38
Bank of America 6
Barings 42
Bausch & Lomb 32
Baxter International 33
Bell Atlantic 48
Berkshire Hathaway 39
BMW 43
Boeing 52, 78
Boston Chicken 38
Braniff 52
Bristol-Myers Squibb 48
British Gas 40

C

Cable & Wireless 82
Caesars World 88
Callaway Golf 28
Capital Cities/ABC 36
Caremark International 33
Carson Pirie Scott 72
Caterpillar 38
CBS 70
Chase Manhattan 18, 73
Chips & Technologies 78
Chrysler 43
Cirrus Logic 86
CNBC Asia 70
CNN 70
Coca-Cola 48
Collins Financial Planning 63
Compaq 6, 18, 56, 78
CompuCom Systems 86
Conference Board 95
Continental Airlines 52
Continental Cablevision 70
Coors Brewing 58
Crédit Suisse 30

D

Daewoo 90
Dain Bosworth 72
Dataquest 6, 86
DDI 82
Dell Computer 56
Deutsche Bank 42
Deutsche Telekom 36
Dickstein Partners 72
Digital Equipment 78, 86
Douglas Capital Management 56
Dresdner Bank 42
DRI/McGraw-Hill 98
DuPont 78

E

Eastman Kodak 78
E! Entertainment 58
Eli Lilly 48
Epic Records 36
Equitable 26, 40
Ericsson (L.M.) 40
Ernst & Young 63

F

Fiat 40
Financial News Network 70
First Fidelity 33
First Interstate 88
First Manhattan Consulting 33
First Union 33
Fisher Scientific 26
Foot Locker 56
Ford 43
Fortsmann-Leff 76
Fox 8, 70
France Telecom 38
Franklin Global Investor Services 40
Frank Russell 63

G

Gateway 2000 6
G.D. Searle 14
Gemstar 90
General Electric 6, 56, 78
General Motors 32, 58, 78
Genzyme 48
Greenhaven Associates 76
Greenwich Associates 58

H

HBO 36
Helix 86
Hercules 78
Hewlett-Packard 18
Hoffmann-La Roche 38
Honeywell 56
HR Investment Consultants 63
HSBC Holdings 22

I

Ibbotson Associates 63
IBM 43, 56, 58, 63, 86, 88
ICF Kaiser International 26
Imperial Bank 46
Intel 6, 18, 86
Internationale Nederlanden Groep 42
Intuit 18
Investor 40
ITT 88
Iverson Technology 56

J

J.B.Hunt Transport 58
J.C. Penney 56
John Hancock Regional Bank Fund 88

K

Kit Manufacturing 58
Kleinwort Benson 42
Kmart 76

L

Lazard Frères 26
Lehman Brothers 43, 62
Leslie Fay 38
Lexus 32
Lincoln National 76
Loral 26
Lotus 78, 88

M

Macy (R.H.) 38
Magnavox 90
Marion Merrell Dow 48
Marks & Spencer 40
Matrix Assets Advisors 88
McGraw-Hill 95
Mercedes-Benz 32, 43
Merger Fund 88
Merrill Lynch 58
Metropolitan Life 58
Miami Valley Marketing 39
Michigan National 33
Microsoft 18, 78, 88
Mitsubishi 90
MMC Networks 81
MMS International 95
Morgan Grenfell 42
Morgan Stanley 42
Motorola 40, 86

N

NBC 70
NEC 82
Netscape Communications 18
NexGen 6
Nippon Motorola 82
Nissan 20
N.J. Devils 38
Nokia Mobile Phones 82
Northwest Airlines 52
Norwest 88
Novell 18
NTT 82
Nynex 78

O

Oppenheimer 76, 88
Oracle 26
Overnite Transportation 87

P

Packard Bell 6
PaineWebber 22
Panasonic 90
Panda Project 86
Parke-Davis 14
PepsiCo 52
Pittiglio Rabin Todd & McGrath 78
Playtex 32
Procter & Gamble 38
Projogs International 56

Q

Qualcomm 18
Quaker Oats 38

R

Rainforest Cafe 38
Ren Corp USA 88
Roberts Roach 52
Rockwell Internationa
RogersCasey 58
R.R.Donnelley 58

S

Salomon Brothers 39
Sam Goody 36
Sara Lee 26
Security-Connecticut Life 76
S.G. Warburg 42
Sharp 90
Shawmut National 3
Silicon Graphics 26
Smith Barney 52
Smith Barney Aggres Growth Fund 88
Snapple Beverage 38
Software Publishing
Sony 36, 90
Southwest Airlines 5
Sprint 38
StarSight Telecast 9
S3 78
St. Joe Paper 88
Strategic Compensati Associates 40
Sun Trust 88
Swiss Bank 42
Syntex 14

T

Target Stores 76
Tele-Communications
Texas Instruments 1
The Boots 40
Thermolase 76
ThermoTrex 76
Third Avenue Value Fund 88
Thomson 90
Toshiba 82, 90
Tower Records 36
Towers Perrin 40, 58
TV Guide On Screen

U

U S West 58

V

Vanderveer Group 58
VH1 Networks 36
Viacom 70
VideoGuide 90
Volkswagen Audi Nippon 43

W

Warner Music 38
Watkins Group 28
Watson Wyatt Worldwide 58
Wertheim Schroder
WestDeutsche Landesbank 42
Whale Securities 86
Wolf Haldenstein Adl Freeman & Herz 72
WPP Group 40

Y

Younkers 72

Z

Zandl Group 36
Zenith Electronics 2

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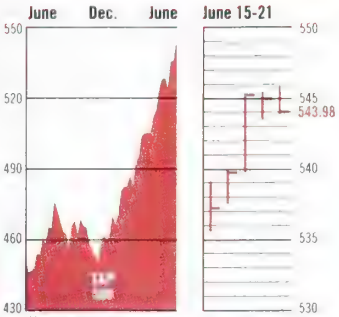
ıvestment Figures of the Week

ENTARY

ey or won't they? Traders l ears last week, trying to f the latest comments com- of the Federal Reserve hint- n upcoming cut in interest Vithout any clear signals e Fed, the yield on the nark 30-year Treasury bond the week largely unchanged, %. The stock market had a ewarding week as the Dow d new highs. A big boost rom First Union Corp.'s $5.4 acquisition of First Fidelity p. Banks and semiconductor had strong rallies.

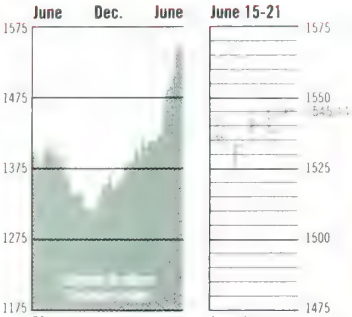
STOCKS



52-week change +20.1%

1-week change +1.4%

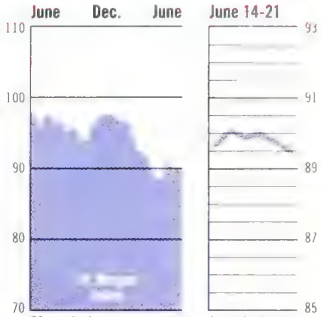
BONDS



52-week change +9.5%

1-week change +0.3%

THE DOLLAR



52-week change −9.0%

1-week change −0.2%

RKET ANALYSIS

TOCKS	Latest	% change Week	52-week
NES INDUSTRIALS	4547.1	1.2	22.1
E COMPANIES (S&P MidCap Index)	198.0	2.0	18.9
COMPANIES (Russell 2000)	282.8	1.4	15.3
MPANIES (Russell 3000)	310.0	1.5	19.3

GN STOCKS	Latest	% change (local currency) Week	52-week
N (FINANCIAL TIMES 100)	3378.3	1.2	14.1
(NIKKEI INDEX)	14,951.2	2.0	−27.4
TO (TSE COMPOSITE)	4530.4	8.0	11.8

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	5.56%	5.61%	4.26%
30-YEAR TREASURY BOND YIELD	6.54%	6.57%	7.39%
S&P 500 DIVIDEND YIELD	2.45%	2.49%	2.78%
S&P 500 PRICE/EARNINGS RATIO	16.7	16.5	20.2

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day moving average	484.3	482.6	Positive
Stocks above 200-day moving average	73.0%	72.0%r	Negative
Speculative sentiment: Put/call ratio	0.55	0.63r	Negative
Insider sentiment: Vickers sell/buy ratio	1.29	1.18	Positive

BLOOMBERG FINANCIAL MARKETS

USTRY GROUPS

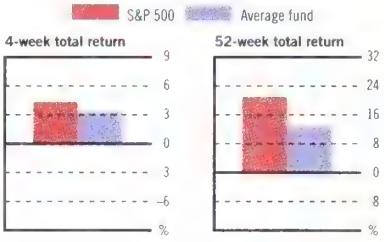
ONTH LEADERS	% change 1-month	12-month	Strongest stock in group	% change 1-month	12-month	Price
INES	17.4	24.5	USAIR GROUP	75.4	98.2	13 3/8
ADCASTING	15.5	23.0	CAPITAL CITIES/ABC	19.2	44.9	105 1/2
AL AND GLASS CONTAINERS	14.4	27.2	CROWN CORK & SEAL	16.6	28.2	48 3/8
ICONDUCTORS	14.2	86.8	TEXAS INSTRUMENTS	21.3	82.4	142 1/2
G CHAINS	11.4	24.5	WALGREEN	13.4	28.1	51 7/8

ONTH LAGGARDS	% change 1-month	12-month	Weakest stock in group	% change 1-month	12-month	Price
URE TIME	−7.8	−11.9	BRUNSWICK	−12.5	−26.7	17 1/2
AREL MANUFACTURING	−5.9	−0.6	FRUIT OF THE LOOM	−16.8	−17.6	21 5/8
LDING MATERIALS	−4.0	0.9	MASCO	−10.4	−13.8	25 7/8
SEWARES	−3.8	9.4	RUBBERMAID	−9.9	5.3	27 1/4
DWARE AND TOOLS	−3.2	12.1	BLACK & DECKER	−7.8	55.9	28 1/4

TUAL FUNDS

MORNINGSTAR INC

RS eek total return	%	LAGGARDS Four-week total return	%
ITREND GOLD	12.6	WARBURG PINCUS JAPAN OTC COMMON	−10.5
EL MIDAS GOLD	11.8	AMERICAN HERITAGE	−8.7
ELITY SELECT AIR TRANSPORTATION	11.6	DFA JAPANESE SMALL COMPANY	−8.0
k total return	%	52-week total return	%
GMAN COMMUNICATIONS & INFORM. A	95.0	AMERICAN HERITAGE	−37.9
T AMERICAN TECHNOLOGY A	77.6	STEADMAN OCEANOGRAPHIC TECHNOLOGY	−30.3
KINS OPPORTUNITY	75.5	STEADMAN AMERICAN INDUSTRY	−29.9



LATIVE PORTFOLIOS

DRI/McGRAW-HILL

amounts represent the t value of $10,000 d one year ago portfolio

tages indicate y total returns

U.S. stocks	Treasury bonds	Foreign stocks	Money market fund	Gold
$12,369	$11,930	$11,054	$10,527	$10,012
+1.67%	+1.91%	+0.82%	+0.15%	+0.97%

on this page are as of market close Wednesday, June 21, 1995, unless otherwise indicat- stry groups include S&P 500 companies only; performance and share prices are as of market close June 20. Mutual fund returns are as of June 16. Relative portfolios are valued as of June 20. A more detailed explanation of this page is available on request. r=revised NA=Not available

THE BALANCED BUDGET PAYOFF

Pop quiz: When was the last time the U. S. government ran a budget surplus? It was 1969. Before that? 1960. The government even ran deficits for seven years during the '50s. Through Republican and Democratic presidents, the ink mostly ran red.

That's why the probability of a deal in Washington to balance the budget is a really big deal—one that corporations, consumers, foreign rivals, and, yes, even the markets, haven't yet fully appreciated. With all eyes on the process, the impact of the end product goes largely ignored.

Take interest rates. DRI/McGraw-Hill has simulated the impact of a budget balanced by 2002. Long-term interest rates will drop about two percentage points. The 30-year bond, now at about 6.5%, will go to 4.5%. The prime rate, now 7.5%, will fall to 5.5%. And 30-year mortgages, now going for 7.5%, will decline to about 6%. The nation will shift from a loose fiscal, tight monetary policy to a tight fiscal, loose monetary one for the first time in decades. That's great not only for housing but for all kinds of business investment. Better yet, the country doesn't have to wait seven years for the interest-rate bonus. Once the markets are convinced of the surety of fiscal discipline, the gains will come fast and furious.

Take stocks. Without a balanced budget, the Standard & Poor's 500-stock index, now at 544, will rise to about 700 by 2002, according to DRI/McGraw-Hill. But with a balanced budget, the S&P index jumps to 900 in seven years, 27% higher. Again, the gains come quickly. By 1997, the S&P index is up to 670 instead of 560, generating many billions in new wealth.

Price-earnings ratios, of course, will be a lot higher, too, if competing bond yields fall sharply. In today's world of 6.5% long bond yields, p-e ratios in the U. S. are in the range of 16-17. Once rates drop down to 4.5%, p-e ratios bump up to 20-21. For Corporate America, this is heady stuff.

So while following the drama in Washington, keep in mind that the endgame has extraordinary economic significance. A balanced budget is about to be introduced into an economy that is already in a capital spending boom, with low inflation, high productivity, and a surging information-technology sector. Caveats about economic cycles aside, 6000 Dow, anyone?

HOW TO AVOID THE POTHOLES IN 401(k)s

Want an attention grabber for the next barbeque on the patio? Just say "my 401(k)," and heads will turn. The 401(k) is now ubiquitous in Corporate America.

Yet there remains vast ambiguity about responsibility for the 401(k). Under the old pension system, the corpor made all the decisions. In the new world of 401(k)s, the vidual is supposed to take charge. Yet the corporation r significant legal liability if future retirees find that 401(k) money is insufficient. Labor Dept. rules hold comp liable for choosing sound investment options and educ workers about them (page 58).

This obviously suggests that companies would be w fully inform all workers of the critical role that 401(k)s p their retirement plans, clearly disclose investment p mance, and offer a significant array of options. Prov only company stock, as many do, could prove costly. Abo companies should make sure that all their employees sig

NONPROFITS' FAT PROFITS

Congress and the Clinton Administration are scrutin the nation's nonprofit organizations, and none too Nonprofits, thanks to their exploding business activities make up 10% of the U. S. gross domestic product—yes,

Two issues are at stake, both stemming from the geoning businesses of the nonprofits (page 31). First, th fairness. Are loophole-ridden, laxly enforced tax laws g nonprofits an unfair edge over for-profit businesses? nonprofits may be abusing tax exemptions and low p rates to beat the heck out of competitors instead of bolst the commonweal. One YMCA in Washington, D. C., has a al-reality golf course, shines its members' shoes while work out, and charges monthly dues of up to $98. nonprofits are selling tax-exempt bonds that may also their commercial activities. Unfair? Rivals sure think s

Then there is the use of all that income to lobby Was ton pols. Last year, more than half of the American As tion of Retired Persons' annual revenues of $382 m came from the sale of insurance, pharmaceuticals, and goods and services on which it paid little or no taxes. Se Alan K. Simpson (R-Wyo.) doesn't like the fact that spent $36 million lobbying for more government spe while opposing the balanced budget amendment. Pres Clinton, meanwhile, is bugged by the fact that the Nat Rifle Assn., which made $14 million from the sale of its azine and insurance, lobbies against gun restrictions.

Businesses are entitled to a level playing field, and gress and the IRS should see to it that the profits of no its are taxed just like the profits of regular businesses. It trickier when it comes to all the lobbying. No one can tion the right of special-interest groups to try to influenc islation. Legislators and the President are wrong if the tack lobbies solely because they disagree with them politi Yet the financing of any lobbying effort cannot be perm to come from untaxed commercial profits. By throwing a their weight in Washington, nonprofits have moved out shadows into the glare of the political process. They de the scrutiny they are now attracting.

OBAL 1000 THE WORLD'S MOST VALUABLE COMPANIES

VIRTUAL REALITY IS IT DANGEROUS TO YOUR HEALTH?

BusinessWeek

10, 1995 A PUBLICATION OF THE McGRAW-HILL COMPANIES

How it will change computing

WINDOWS 95

PAGE 94

PRAXAIR C

into oxygen and nitroger

these and other basic

Extra oxygen injected into an electric arc furnace converts potential carbon monoxide emissions into extra energy instead.

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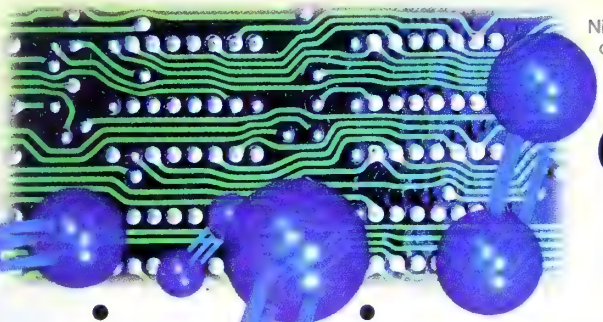

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BusinessWeek
JULY 10, 1995

COVER STORY

WINDOWS 95

It's sure to transform computing. But can Microsoft's vaunted operating system live up to expectations? page 94

Cover Story

94 WINDOWS 95
Nobody has ever done quite what Microsoft is attempting—moving 75 million customers and an entire industry en masse to a new technology. But all signs point to another slam-dunk for Bill Gates

100 MICROSOFT VS. THE FEDS
The Justice Dept. is probing charges that Windows 95 contracts are unfair

101 ONLINE—BUT ON TIME?
The rush to the World Wide Web might slow Microsoft Network

106 YES, IT LOOKS LIKE A WINNER
Windows 95 isn't perfect, but it's a big user-friendly step forward

News: Analysis & Commentary

32 THE U.S.-JAPAN TRADE DEAL
Japan blinks in a battle that has taken the world's two most powerful economies to the brink of a trade war

34 AND NOW A FLAP OVER FILM?
Washington may well take up Kodak's cause against Japan's Fuji

35 COMMENTARY
Four good reasons the Republicans' budget-cutting plan probably won't balance the books

36 BANKERS TRUST'S TALENT DRAIN
A raft of resignations leaves the financial giant in a state of upheaval

37 GOIZUETA: AN AMERICAN TALE
Coca-Cola's CEO recounts the escape he and his family made from Cuba

38 KERKORIAN'S NEW PLOY
His next move may be an attempt to install a new board at Chrysler

39 CITY OF ANGELS, SUBWAY FROM HELL
Los Angeles' $5.8 billion disaster on rails: Shoddy, scam-ridden, and more overbudget than *Waterworld*

40 HAVE THEY GOT BOB BRENNAN?
The noose is tightening, but don't underestimate the New Jersey financier

42 THIS PC WAR ISN'T EXACTLY P.C.
Now, Compaq is firing insults at archrival Packard Bell

44 IN BUSINESS THIS WEEK
The Reichmanns, Hawaiian Airlines, Alicia Munnell, Orange County, Lockheed, Sandy Weill, GE Aircraft

International Business

50 JAPAN
It's worse off than it looks on government and business balanc

52 SOUTH KOREA
Can Samsung leap into the high ranks of global electronics comp

54 BRITAIN
The Tory fracas could hand the government to Labor

55 ITALY
After Agnelli, there are mostly questions at Fiat

57 INTERNATIONAL OUTLOOK
Israel: Why Rabin is rushing to peace deal done

Economic Analysis

22 ECONOMIC VIEWPOINT
Kuttner: Workers need a social c

24 ECONOMIC TRENDS
European vs. U.S. productivity, education, home equity, workers

29 BUSINESS OUTLOOK
Consumers may be tightfisted, b business isn't

L LANDLORD
Green's plan
te the rules of
ate page 117

FEAR, LOATHING, AND FOAM CUPS
The secret world of the billionaire Dart clan page 58

JAPAN'S REAL WORTH
Accounting gimmicks cloak the worrisome truth page 50

SEASICK IN CYBERSPACE
A scary virtual reality scenario: Side effects –and litigation page 110

TRADE DEAL
The U.S. vs. Japan: America looks like the winner page 32

RATING THE WORLD
U.S. companies were top performers, while Japan stalled page 62

vernment
SHINGTON OUTLOOK
npaign reform: Maybe Bill and Newt
their fingers crossed

ople
DART FAMILY FEUD
nily lawsuits, renounced citizenship,
rmored yacht: What billions
ght the Darts

e Global 1000
ERICA IS OUT IN FRONT
s year's star performer is the U.S.
nwhile, Japan has hit a brick wall,
Europe is sputtering

ACTION IN EMERGING MARKETS
ea and India are hot, Brazil is
ing warmer, and South Africa is
ving a lot of life

arketing
LING FOR *DINERO*
. telemarketers are finding
apped—and unjaded—consumers
ng foreign-language speakers

Science & Technology
110 IS VIRTUAL REALITY SICKENING?
Headset makers are scrambling to resolve the health issues

115 DEVELOPMENTS TO WATCH
Absorbing nuke waste, beyond X-rays, a one-chip wonder, less global warming?

Finance
116 CUTTING CAPITAL-GAINS TAXES
Long-term benefits of a lower rate outweigh the costs of a sell-off

117 WORLD FOR RENT. CALL STEVE GREEN
Investors such as Milken are turning his real estate company into an empire

120 FIRST FIDELITY FALLOUT
Did Banco Santander have inside information on First Union's purchase?

122 SUGAR DEALS THAT GO SOUR
As world sugar prices increase, scam artists target neophyte buyers

124 INSIDE WALL STREET
Mercer: Not just paper profits
A windfall from workers' comp
Good seats for the building boom

141 INVESTMENT FIGURES OF THE WEEK

The Corporation
125 THRIFT RIFT AT SOVEREIGN
The squabble over selling this Pennsylvania thrift is a story being repeated as the bank biz consolidates

Personal Business
132 COMPUTERS: Build your own home page
OUTDOORS: Cycle the ski slopes

Features
6 UP FRONT
12 READERS REPORT
12 CORRECTIONS & CLARIFICATIONS
20 BOOKS
Solovyov and Klepikova: *Zhirinovsky*
Kartsev: *Zhirinovsky!*

28 TECHNOLOGY & YOU
Laptop or desktop, Macintosh or Windows: Picking the right PC for your freshman

139 BUSINESS WEEK INDEX
140 INDEX TO COMPANIES
142 EDITORIALS
A victory for free markets everywhere
Money talks, campaign reform walks

Up Front

EDITED BY LARRY LIGHT, WITH OLUWABUNMI SHABI

TALK SHOW "We cannot continue to allow businessmen be held up by a handful of buccaneering barristers."

—Senator Alfonse D'Amato (R-N. Y.) on a bill to limit shareholder lawsuits, which the Senate passed handily on June 28

TAXING MATTERS

TAX EVASION *UBER ALLES*?

GERMANY IS CRACKING down on its legions of tax evaders. Recently, 300 officials in Germany raided five Merrill Lynch offices and the homes of 60 Merrill financial consultants at noon. Their target: evidence that firm employees had helped clients evade taxes. Merrill denies its staffers did this. The tax *polizei* also have hit German banks.

HIGH NOON: *Raiding Merrill Lynch*

German authorities fear an epidemic of tax cheating. The tax collectors' labor union estimates that all levels of government lose well over $70 billion yearly, although the Finance Ministry says it's not that high. Certainly, the temptation for German taxpayers to fiddle as they file has grown substantially. Since Jan. 1, Bonn has been levying a 7.5% "solidarity surcharge" to finance unification costs. That brings the effective top rate for the affluent to 57%. Another stimulus to cheating: the 30% withholding tax on interest payments, begun in 1993 to ferret out underreported income.

One legal tax dodge that's used by many Germans is to move cash to havens such as neighboring Luxembourg—which offers secrecy and no interest withholding. Branches of German banks in Luxembourg get to follow the local rules and legally receive billions in deposits from home. The banks, though, tell suspicious German authorities they don't encourage the flight capital. *John Templeman*

GURUS

ALL ROADS LEAD—EAST

TREND-WATCHER JOHN Naisbitt is targeting Asia now. Known for his cheery takes on the future, the best-selling author is finishing up his next book, tentatively titled *Megatrends Asia*. Due out in the U. S. in January, the book argues that "the whole center of the world is shifting to Asia," says Naisbitt, "economically and, I think, politically and culturally."

SEER: *Naisbitt*

Some Americans might not relish the prospect of losing global hegemony. But Naisbitt, often derided for ignoring the downside of things, feels such concerns are irrelevant. "In a global economy, there are no boundaries," he says.

A relentless synthesizer of news events and others' views, Naisbitt presents a lot of conclusions that won't startle knowledgeable international business folk. Example: As Asians' living standards rise, their economies will move from export-driven to consumer-oriented.

Naisbitt, 66, has spent much of the past 1½ years operating out of Kuala Lumpur. He can rattle off all kinds of facts and figures on Asia, such as how many ethnic Chinese live outside China. Although he speaks no Asian language, he says he has been coming to the region for three decades. □

THE LIST **I-WAY WORDPLAY**

The Information Superhighway is often hailed as the pathway to a luminous tomorrow. Companies are scrambling to position themselves for when every home has an array of high-tech services, from travel reservations made via PC to video-on-demand. But for a less awestruck view of the future, check out this Internet pastime: creating anagrams from the letters of "Information Superhighway." Here are some notable efforts.

ANAGRAMS FROM

I N F O R M A T I O N
S U P E R H I G H W A Y

ENORMOUS, HAIRY PIG WITH FAN
HEY, IGNORAMUS—WIN PROFIT? HA!
OH-OH, WIRING SNAFU: EMPTY AIR
A ROUGH WHIMPER OF INSANITY
OH, WORMY, INFURIATING PHRASE
WAITING FOR ANY PROMISE, HUH?
NEW UTOPIA? HORRIFYING SHAM

WHEELER-DEALERS

PLAYING KING OF THE HILLS (STORES

BOSTON FINANCIER THOM Lee stands to lose as much $7 million now that raid Mark Dickstein has won co trol of Lee-led Hills Stor Dickstein won a proxy fig to replace the departme store chain's seven-memb board. Lee's forces conced defeat June 28, even thou the official tally is due July

LEE: *A lot to lose*

With Dickstein prevaili Lee will lose the $250,(yearly he collects as chairm But the biggest hit may co from possibly losing thousa of stock rights owned by t investment pools he run bought for $20.50 per sh and worth almost $7 mill by Dickstein's reckoning. I aides wouldn't confirm det of his rights position.

The rights can be conve ed to common gradually o more than 10 years. Accord to Hills documents, thou the rights "shall terminate lapse" if the company is s But Hills CEO Michael Bozi Lee loyalist, says he has a gal interpretation that "th rights do survive."

Lee, who has 7.3% of chain through his investm vehicles, might offset rights wipeout by selling stake to an acquirer. Di stein plans to pay $27 share (current Hills pri $24.50) or to auction Hills to the highest bidder.

Up Front

TRIED AND TRUE

REINVENTING THE COMPUTER, IN A.D. 400

IS ST. AUGUSTINE of Hippo the father of the next breakthrough in cybernetics? The great Christian theologian died in Roman Africa in 430. Now, a scientist from NASA's Jet Propulsion Laboratory in Pasadena, Calif., thinks his writings on the Holy Trinity may hold the seeds of a new form of symbolic logic that could lead to such advances as radically different computer designs.

AUGUSTINE *Logic*

Augustine, Athanasius, and others conceived of one God in three "persons": the Father, the Son, and the Holy Spirit. William McLaughlin, JPL's deputy manager of astrophysics, says the notion of being both one thing and multiple things at once violates the "set" theory underlying today's computers. "There may be some real substance in there that one could milk out," says McLaughlin, who has articulated his idea in an article and is puzzling out its implications. A "Trinity" computer, for example, might have multiple processors that share work and excel at, say, spotting patterns. Long-dead thinkers have been inspirational before: Today's computer logic is based on the work of George Boole, an English mathematician who died in 1864. *Peter Coy*

ON CAPE COD: *Sign of the times*

BALLPARK FIGURES

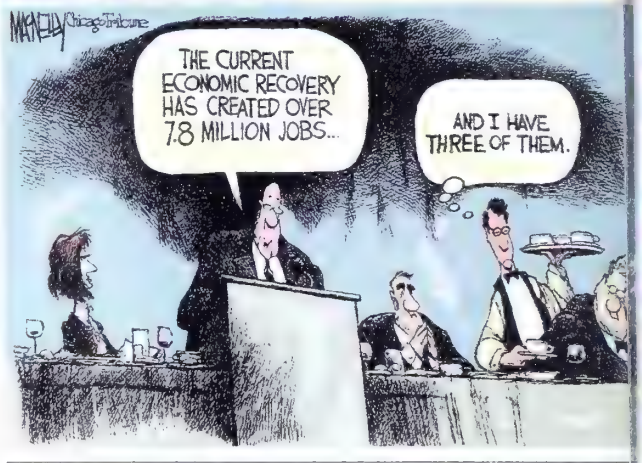
MADISON AVENUE COMES TO MUDVILLE

SAY IT AIN'T SO, JOE. THIS summer, commercialism has come to the venerable Cape Cod Baseball League. Corporate logos are spread across outfield fences of these fields of dreams where top college players perform. That is bad for the 10-team league's "family atmosphere," says longtime fan Jim McElvenny.

Why the ads? Major League Baseball, reeling financially from the player strike, has sliced its annual $85,000 subsidy to $40,000, with no sign of restoring it next year. Result: a big hole in the Cape League's $135,000 annual budget. The Majors cut back on all 10 NCAA-sanctioned summer leagues, many of which have long welcomed ads. But the century-old Cape League was a legendary home of baseball purity.

Financing came mostly from fund-raising events and passing the hat in the stands. Only a few ads appeared. Now they're pervasive. Sponsors include Ocean Spray and Friendly's. "I don't think a few signs detract," says league President Judy Walden Scarafile. Small wonder. The $130,000 from the sponsors is almost triple what the league lost. *David Grunebaum*

DRAWN & QUARTERED



IN THE PITS

CALL IT OUTSIDER TRADING

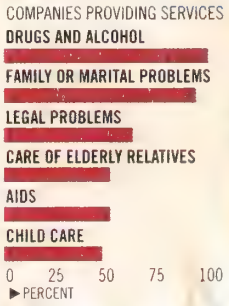
THE LONG ARM OF THE LAW gets longer. In an unusual move, the Securities & Exchange Commission has charged foreigners—two Swedish citizens—with insider trading. Stefan Hislop and Erik Hylander had no contact with the U.S. except via trades on the Chicago Board Options Exchange. Their broker was Swedish, they resided in Sweden, and they traded in non-U.S. companies.

The SEC says the Swedes bagged an estimated $920,000 in illegal profits from options transactions related to a 1989 proposed merger of two shipping companies, Stena Finans of Gothenberg, Sweden, a Bermuda-based Sea Contai ers. Hislop, a Stena emplo ee, relayed info to Hylanc a foreign-currency brok who allegedly executed t trades. If the feds preva they will go after the defe dants' assets. Both men we convicted in Sweden of ta evasion for not reportin trading profits. Hislop's lav yer couldn't be reached. H lander's says his client h paid for wrongdoing an should be left alone. *Lind Himelstein and Paula Dwye*

THE BIG PICTURE

HELPING HANDS

Among large and medium-size U.S. companies, 79% offer counseling and provide other social services to employees. And of those that don't, one-fifth plan to start employee aid plans.



DATA WILLIAM M. MERCER INC.

FOOTNOTES Executives who are satisfied with their new jobs after one year: 83%; after two years: 69%

(CLOCKWISE FROM UPPER LEFT) PHOTOGRAPH BY BETTMANN NEWSPHOTOS; CARTOON BY MACNELLY/CHICAGO TRIBUNE; ILLUSTRATION BY JAMES O'BRIEN; CHART BY RAY VILLAFLOR; PHOTOGRAPH BY BRIAN SMITH

it

connects

the

machine

your MIND to

An idea
is followed by an impulse
that shoots down
your arm.
Your fingers move
across a keyboard.
Words appear
upon a screen.
This is how we work,
how we think,
how we are.

To think faster and work faster
the physical link between you
and the machine must be seamless.
The Microsoft® Natural Keyboard™
is that link.
Shortcuts based on single keystrokes
make it possible.
Shortcuts made possible because
the Microsoft Natural Keyboard
is an extension of Microsoft Windows,®
the software that makes your machine tick.
Launch applications,
find misplaced files,
connect to network servers,
move the cursor automatically to a specific word,
to a menu bar,
with special keys,
with simple keystrokes.

Together with a Microsoft Mouse
that jumps to
highlighted buttons
and returns
to its original position,
you are connected, fitted,
ergonomically and
intuitively
one
with the machine.

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Readers Report

IS THROWING MONEY AT SCIENCE THROWING MONEY AWAY?

John Carey's article accurately portrays the dismal depths of dependency to which our national scientific community has descended ("Throwing money at science just creates a monster," Commentary, June 19). However, the issue is larger than federal largesse. We have also created an expanding class of scientists—not unlike our welfare poor—dependent upon growing government money. We must get these scientists and engineers off the federal dole and into the for-profit economy.

Martin J. Cooper
Irvine, Calif.

John Carey suggests that we could make drastic cuts in federal science and technology, from laboratories to graduate education, with no ill effect. This neglects the immense contribution that taxpayer supported R&D makes to the economy of this nation. Millions of Americans live and work better because of federal science and technology.

If we dissolve teams of scientists and engineers, discourage young people from pursuing scientific and technical careers, and dismantle world-class facilities, we will surrender our national advantage in science and technology. In the process, we will fall behind in the global market and lose much growth and many jobs. Science and technology are the fundamental drivers of economic growth. While we need to change and renew, we cannot afford to destroy.

Mary L. Good
Under Secretary for Technology
Commerce Dept.
Washington

In my field of brain and spinal-cord injury research, these cuts mean that we will not be able to develop effective therapies within our lifetime for the millions of disabled Americans who consume many billions of dollars for health care, disability, and welfare. We are throwing away our world dominance in science and technology, which is worth many trillions of dollars, to save a f billion dollars.

Dr. Wise Yo
Professor of Neurosurge
Physiology & Biophy
New York Univers
Medical Cer
New Y

CORRECTIONS & CLARIFICATIONS

The Hewlett-Packard Co. color printer cit ed in "WinWriter: A winner?" (Technology You, June 26) should have been the Desk Jet 660C.

"This takeover goes way past hostile (Finance, July 3) incorrectly said tha Younkers Inc. emerged from bankruptcy i late 1993, after an ill-fated leveraged buy out. In fact, it was Carson Pirie Scott & C that did so. The story also misstate Younkers' fiscal 1995 sales. Sales we $599.1 million, not $559.1 million.

In The Business Week Best-Seller List (Ju 3), the publisher of *The HP Way* was mi identified. The book is published by Harpe Business.

ARE STOCK-PICKERS WORTH THEIR SALT?

After reading "Four pros took $100,000 challenge. Two passed" (Spe Report, June 19)—about how these p picked stocks—I can only conclude t their picks are no better than cha The average return of these four m agers, +14.9% with a standard erro 3.0%, is not significantly different f the S&P 500-stock index gain of +16 Furthermore, even though a sampl four is small, their gains (21.2%, 16 14.6%, and 6.9%) have a distribu consistent with a normally distribu random variable. These results r the question: Do money managers h useful information for picking sto that will provide an advantage just investing in a portfolio that

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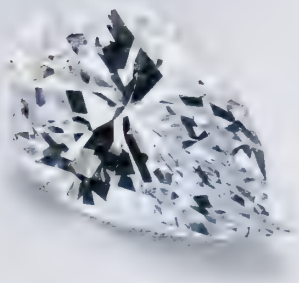
THE WAY WE SEE IT THE ROCK ON THE TOP IS MORE VALUABLE.



oal may not be considered a luxury, but that's precisely eason we think it makes such a smart investment. ecause the demand for coal is constant and strong in environment. It remains a necessity even during a sion, while the demand for diamonds tends to fall by ayside.

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The C-Class
Starting at $30,950*

proximates a stock index? I am inclined to say no.

Mark R. Weber
Rockefeller University
New York

OZONE: PRUDENT STEPS ARE NOT HYSTERIA

Regarding Paul Craig Roberts' column "Quietly, now, let's rethink the ozone apocalypse" (Economic Viewpoint, June 19), ozone shields living things from ultraviolet-B (UV-B) radiation, and there is no dispute about the link between UV-B and nonmelanoma skin cancer. Replacement of chlorofluorocarbons (CFCs), long supported by the industries that produce and use these chemicals, is occurring with little or no inconvenience to consumers. Life on Earth's surface depends on a stable ozone layer. The termination of production of CFCs was a prudent reaction by governments around the world to a looming threat that could have turned into a catastrophe.

Michael Oppenheimer
Senior Scientist
Environmental Defense Fund
New York

WHAT WAS REALLY SAID AT THE FED

In "Is the Fed surrendering to Big Brother?" (Economic Viewpoint, May 22), Paul Craig Roberts liberally mixed and matched quotes from different pages of my public remarks presented to the Board of Governors as we considered the revised Community Reinvestment Act (CRA) regulation. Please advise your readers that they may obtain a copy of my remarks by writing to me at the Federal Reserve Board, Washington, D. C. 20551.

Lawrence B. Lindsey
Board of Governors of the
Federal Reserve System
Washington

IF OSHKOSH HEADS EAST, MAYBE CUSTOMERS SHOULD HEAD HOME

Thank you for the update "Kids' wear is not child's play" (Marketing, June 19) on the happenings at OshKosh B'Gosh. I especially appreciate the insight into the new management's strategies for satisfying its stockholders—moving more production to the Far East. As OshKosh is abandonin the U. S. workforce, I think it woul only be just if U. S. buyers abando the management and stockholders c OshKosh. I'll do my part—and als suggest same to others.

J. R. Gordo
Dalla

HOW TO REACH BUSINESS WEEK

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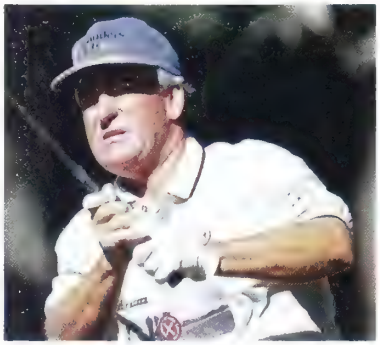

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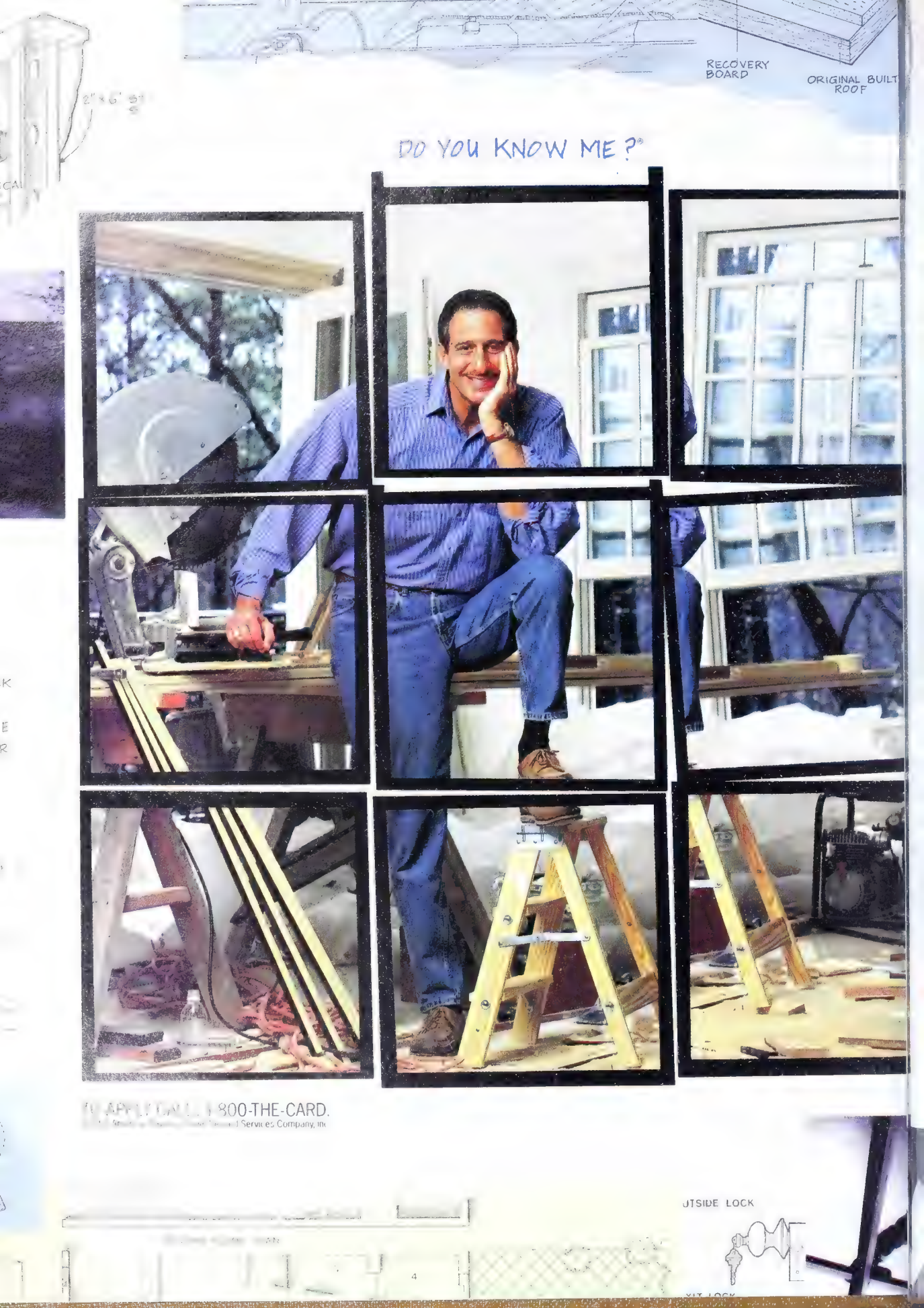
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ZHIRINOVSKY:
Russian Fascism and the Making of a Dictator
By Vladimir Solovyov and Elena Klepikova
Addison-Wesley • 256pp • $25

ZHIRINOVSKY!
By Vladimir Kartsev
Columbia University Press • 198pp • $24.95

FASCIST BUFFOON OR A FORCE TO BE FEARED?

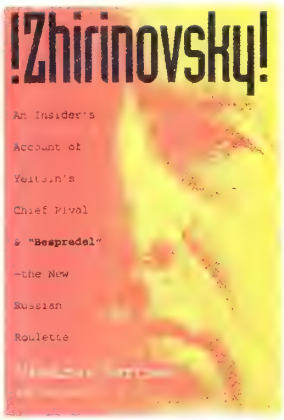
On Apr. 25, when Vladimir Volfovich Zhirinovsky turned 49, more than 600 of his fans gathered in front of Moscow's Rossiya Hotel to celebrate. The style was part Nazi rally, part Sicilian wedding—with Zhirinovsky in the center ring. Flanked by security men, a troupe of women in brightly colored dresses belted out folk songs. Next came a brass band whose drum major carried a pole with a Third Reich-style eagle. The only thing missing were the elephants that Zhirinovsky's press aides had promised.

It was pure Zhirinovsky: outrageous, crude, fascinating—and dangerous. A loser most of his life, he came out of the blue, promising to slice up Poland, take back Alaska, get rid of criminals and Jews, and elevate Mother Russia to a proud new status. In 1993, his ultranationalist Liberal Democratic Party (LDP), exploiting the discontent arising from post-communist hardships, captured a stunning 23% of the vote in parliamentary elections. Now, after years of economic depression and with Yeltsin veering toward authoritarianism and waging an unpopular war in Chechnya, the question arises: Could Zhirinovsky win the 1996 presidential election?

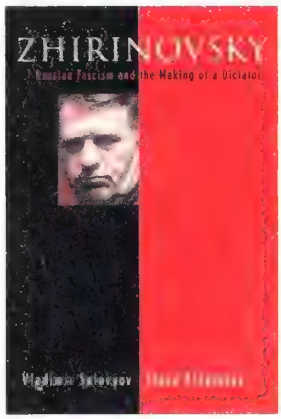
So it's important to figure out who this guy really is. Two new books attempt to. Neither fully satisfies. One, by Vladimir Kartsev, Zhirinovsky's former boss at publishing company Mir, is partially an apologia cluttered up with silly ideas about economics and socialist morality. The other, by journalists Vladimir Solovyov and Elena Klepikova, is more straightforward, but since its authors left Russia in the late 1970s, they rely too much on secondary sources.

What makes both efforts worth reading, however, is the perspective they bring to the phenomenon behind Zhirinovsky. Democracy has unleashed some ugly Russian proclivities: strains of xenophobia and anti-Semitism and a substantial inferiority complex. The West would do well to start taking what Zhirinovsky represents seriously.

Kartsev's book gives a better explanation of the conditions that produced Zhirinovsky. A keen observer of the Russian psyche, Zhirinovsky exploits the ordinary Russian's apathy, cynicism, and disgust at the rise of crime and loss of personal wealth caused by economic reform. New Russia is wracked by a condition described as *bespredel*, meaning "without limits." Kartsev defines it as a "kind of laissez-faire gone mad that has arisen from cynicism bred under totalitarian conditions.... It connotes total permissiveness—the abrogation of tradition, the rules of the game, the rules of conduct, and, at times, even fundamental decency and common sense."



Zhirinovsky's best allies are inflation and crime. Both got a huge boost from reform policies hatched in the West and implemented by Russian academics with little practical experience. In early 1992, "shock therapy" decontrolled prices but left production monopolies in place. Inflation soared to 2,000% a year, while the ruble's value plummeted. Savings once worth $10,000 were suddenly reduced to a few dollars. Many Russians still regard such policies as a Western plot. And in a nation suddenly plagued by violent street crime, Zhirinovsky's promise of swift execution for gangsters is, Kartsev points out, a sure vote-getter.



Solovyov and Klepikova explain the amazing career of Zhirinovsky by probing his psyche. In their analysis of his endlessly self-revelatory writings and speeches, he's driven by alienation and feelings of sexual inadequacy. A Russi born to poverty in the Central Asi republic of Kazakhstan, Zhirinovsky sa he was bullied by Kazakh children. H father may or may not have been Je ish—a critical point in a place so oper anti-Semitic. (The rumor persists, b Zhirinovsky denies it.) He was unluc with girls. At a Moscow institute whe he studied law and Asian languages, felt the other students regarded him a country bumpkin.

Today, Zhirinovsky tries to be mo Russian than anyone else—which S lovyov and Klepikova attribute to h anxiety about Jewish roots. They off evidence that Israel in 1983 offered h an invitation to emigrate. In 1988, helped found Shalom, an anti-Zioni Jewish group linked to the KGB. Lat Zhirinovsky attended meetings of Pa yat, a rabidly anti-Jewish group.

Neither book is able to get to t bottom of Zhirinovsky's alleged associ tion with the KGB. Kartsev dismisses noting that Zhirinovsky was never co sidered material for the Communist Pa ty—a key requirement for KGB me bership—and stumbled from o second-rate legal job to the next.

Kartsev also shows that, as recent as the late 1980s when they worked t gether, Zhirinovsky was nothing like t day's rabid ultranationalist. But once h got involved in electoral politics, Zhi novsky quickly showed a talent for dr matics, populism, and outrageous r marks. With each win, his statemen became more extreme. They also g weirder. Upon winning th 1993 election, he pr claimed: "Political imp tence is over! Today is t beginning of orgasm. T whole nation, I promis you, will have an orgas next year."

Can this man really w the Russian presidency Today, Zhirinovsky doesn score so well in the poll trailing Yeltsin, whose ra ings are at all-time low The danger, though, is vo er apathy: Polls show th more than half of the electorate se no need to participate in politics. S depending on how a low voter turno breaks, it's possible that Zhirinovsk or someone even worse, could wind u with his finger on the trigger of a nucl ar force that can still make toast of th U. S. in 30 minutes.

BY PETER GALUSZK

Galuszka is BUSINESS WEEK's Mos cow bureau chief.

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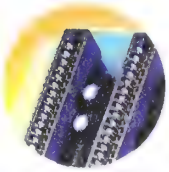
IBM Solution # 81061-R  **a.k.a. "Flexible Architecture"**

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BY ROBERT KUTTNER

NEEDED: A TWO-WAY SOCIAL CONTRACT IN THE WORKPLACE

TOO HARSH: Even the best companies now slash benefits and dump workers. A fair deal requires standards set by national policy or labor unions

America's best corporations are caught between two opposite first principles. One prizes the engaged, empowered employee. The other views employees as expendable costs. Reconciling these views is like squaring the circle.

It is hard to pick up a business magazine without encountering compelling tales of companies that improved productivity through the "high road"—a policy of empowered employees, teams, and high-performance work. This model implies a reciprocal commitment between management and employees, but in an economy of relentless downsizing something appears to be lacking. The company can only insist that high-performance work is necessary to stay in business: It does not guarantee that high performance will be rewarded or even that the employee will keep a job. The corporate social contract in America today, says Anthony P. Carnevale, chairman of the National Commission on Employment Policy, "is the sound of one hand clapping."

You might think this one-sided social contract would have costs to employee morale and hence to productivity. But, evidently, fear is a powerful motivator. In his study of corporate loyalty, *White Collar Blues*, Charles Heckscher was granted access to middle managers at eight large corporations undergoing major restructurings, including General Motors, Dow Chemical, and AT&T. Heckscher, who chairs the labor studies and employment relations department at Rutgers University, found that employees were highly dedicated but had scant confidence that their devotion would be repaid. Yet they retained a surprising degree of loyalty. "Perhaps the principal puzzle in companies undergoing the shock of change," he concluded, "is that it produces so little conflict and disintegration."

GLOWING REPORT. At another conference at the Jerome Levy Economics Institute of Bard College, the keynote speaker was Frank P. Doyle, executive vice-president of General Electric Co. Doyle confirmed Heckscher's portrait. GE today does three times the business it did in 1980—with half the workforce. To get there, Doyle said, "we did a lot of violence to the expectations of the American workforce.... We downsized. We de-layered. And we outsourced."

GE is among the most dynamic of U.S. companies, with a deep commitment to imaginative human-resource strategies. For its core employees, GE is an attractive place to work. However even the best of our corpora tions cannot guarantee career security, n matter how dedicated its workforce. If this i the core, heaven help the periphery.

At a conference at the Radcliffe Publi Policy Center, there was much talk about "new economic equation" to reconcile wor and family life. Another corporate manage with a strong commitment to core employees Robert E. Boruff, vice-president for manu facturing at Saturn Corp., gave a glowing re port about how his company offers subsidize child care, flexible hours, and help to worker pursuing more education. But even Satur uses outsourcing and contingent workers, wh do not receive all these benefits.

HIGH-MINDEDNESS? Corporate America is lit tered with companies that once prided them selves on generous fringe benefits and no layoff policies—companies that now devalu health benefits and jettison faithful employee by the thousand. Although they talk a goo game, America's most successful companie seem to have decided that a workplace com pact is necessary only for their most value workers. So a humane corporate culture fo the entire workforce cannot be anchored i the high-mindedness or even the enlightene self-interest of the corporation.

Employment security, as opposed to jo security, is assured only when the econom enjoys high growth and full employment. Wit high unemployment and plenty of job seekers companies have no need to make a caree commitment to employees. Conversely, in full employment economy, the existence o plentiful job opportunities takes the sting ou of downsizing at any one company.

Similarly, if we believe as a society in pro family workplaces, lifetime learning, pay fo performance, and other enlightened princi ples, these norms must be anchored in nation al policies. Enlightened corporations may want to pursue a high-road approach, but competi tive pressures may make that prohibitively expensive unless all companies are traveling the same road.

The elements of a decent, two-way socia contract in the workplace require floors set by either national policies or strong labor un ions. It's encouraging that America's most productive companies, in principle, value a high-road approach, but that doesn't guaran tee that they will take it. It's also necessary for society to bar the low road.

Robert Kuttner is co-editor of *The American Prospect* and author of *The End of Laissez-Faire*

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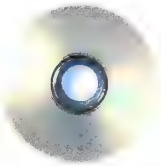
IBM Solution # 43479-J  **a.k.a. "Built-in CD-ROM Drive"**

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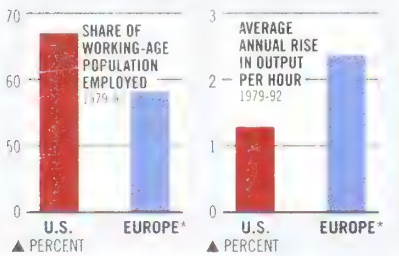
BY GENE KORETZ

A PRODUCTIVITY PARADOX

High wages can help–or hurt

On the surface, Europe and the U.S. have been beset by increasingly divergent economic problems. Although all industrial economies have experienced a slowdown in productivity growth since the early 1970s, Europe's gains have remained larger than those in the U.S. And European real wages, including those of lower-income workers, have continued to climb, while U.S. real wages have slowed and actually fallen sharply at the lower end of the scale.

THE U.S. AND EUROPE: JOBS VS. PRODUCTIVITY?



DATA: ROBERT J. GORDON *GERMANY, FRANCE, BRITAIN, AND ITALY

On the other hand, joblessness has skyrocketed in Europe in the past decade, while it has stayed relatively low in the U.S. And Europe has exhibited stagnant job growth compared with substantial U.S. employment gains.

The upshot is that Europeans have been far less concerned with productivity than with reducing unemployment—perhaps by adopting the greater flexibility of U.S. labor markets. By contrast, Americans have focused on the need to boost productivity as a way to foster real wage growth and reverse the trend toward income inequality.

In a new study, Robert J. Gordon of Northwestern University suggests that economists on both sides of the Atlantic may be missing the boat. Europe's productivity gains, he says, appear to have been partly a byproduct of its rising unemployment. And a source of America's lagging productivity may actually have been the sluggish wage growth it purportedly caused.

In Europe in recent decades, for example, union militancy and minimum-wage hikes have periodically boosted labor costs. Initially, such developments, says Gordon, raise both unemployment and productivity, since reduced hiring means existing plant and equipment are spread over fewer workers.

In America, meanwhile, waning unionization and a plunging real minimum wage have tended to depress wages. And the falling cost of labor relative to capital has encouraged hiring and lessened the appeal of labor-saving investment, putting downward pressure on productivity growth.

Moreover, Europe's situation may well be worsening, warns Gordon. Although an initial side effect of rising European labor costs may have been to raise productivity, they also lowered profits and eventually investment. Thus, reduced capital accumulation has now hurt Europe's ability to promote productivity gains and put its jobless to work.

What are the implications of Gordon's thesis? For one thing, Europeans may well find that achieving higher employment via labor-market reforms will hurt productivity (though such steps may still be desirable). And Americans need to weigh not only the impact of sluggish productivity on incomes but also the degree to which wage dispersion is impeding productivity growth.

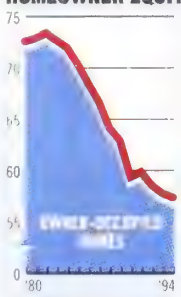
WHAT'S KEEPING WALLETS CLOSED?

Maybe it's a drop in home equity

Why has consumer spending stayed so subdued in the face of falling interest rates? Economist Joseph Carson of Dean Witter Reynolds Inc. thinks one neglected cause has been wealth erosion in the housing sector.

Carson points out that homeowners' equity has fallen from 73% in 1983 to 57% today (chart). In the 1970s and 1980s, he notes, consumers borrowed against equity in their homes or used part of the proceeds of home sales to finance hefty outlays. Today's low equity level suggests that many people, particularly in the Northeast and West Coast, may have little or no equity in their homes—"a major deterrent to buoyant spending."

THE SLIDE IN U.S. HOMEOWNER EQUITY



DATA: FEDERAL RESERVE BOARD, DEAN WITTER REYNOLDS INC.

Soft home prices are one reason owners' equity is so low. Although sales of existing homes perked up a little in May, they are still running 13.6% below year earlier levels, and median home prices are down in both real and nominal terms. With home equity the largest single asset held by most households, Carson thinks flat to falling home prices may be less of a spur to home sales than a damper on spending by people disheartened by falling real estate values.

THE BOOM IN ADULT EDUCATION

Its cause is mainly demographic

The conventional view is that Americans have come to appreciate the importance of continuing education in today's fast-changing economy. Indeed, from 1978 to 1993, the number of U.S. 25-to-64-year-olds attending school (primarily colleges and universities) soared by 45%, or 1.8 million.

Unfortunately, most of the influx reflects demographic trends. While the adult-enrollment rate did edge up, to 4.4% over the 15-year period, the Labor Dept. says 70% of the jump in students resulted simply from the aging of baby boomers. If there's any trend toward lifelong learning, it seems to be occurring among adult women. Their enrollment rate jumped by more than a percentage point, to 5.1%, while the male enrollment rate slipped to 3.7%.

SWEET CARROTS, BIG GAINS

Workers say incentives work

In light of the greater stress on productivity that has changed American work practices over the past decade, one might think further potential gains would be relatively small. But a recent survey by Yankelovich Partners Inc. for William M. Mercer Inc. indicates that workers don't agree.

Although 70% of the 1,200 workers interviewed said they were happy in their current jobs, 86% felt they could still boost their productivity by an average of 26% given the right incentives and conditions. The biggest barriers to higher productivity: inadequate supervision and employee involvement in decision-making, too much work, and insufficient rewards and chances to advance.

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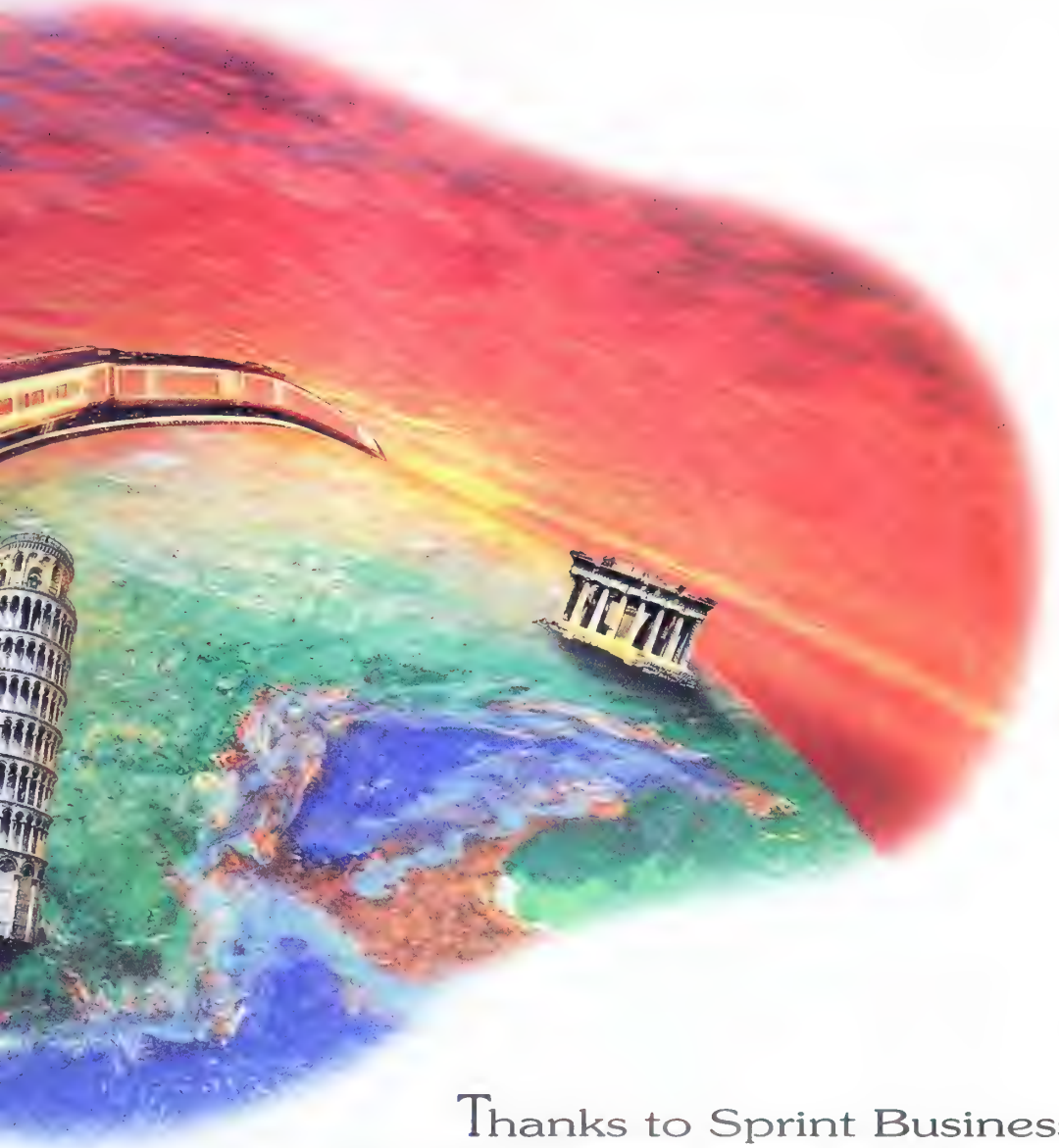


BY STEPHEN H. WILDSTROM

PC PICKS FOR THE FRESHMAN CLASS

Like millions of other parents, I'm getting ready to send a high school graduate to college. The long selection process is over, the housing requests have been submitted, and the first checks are in the mail. One big decision remains: What sort of computer should Jonathan get?

Increasingly, colleges expect students to come armed with computers or to buy one from the campus bookstore soon after arrival. Even when computer purchase isn't a formal requirement, it's far more convenient for students to have their own units than to trek to the library or computer center to use one. Fortunately, you should be able to meet your student's needs without adding too much to the financial strain.

NOSE AROUND. You have two basic choices to make. First, should you go with a Macintosh or Windows? Then, should you opt for a laptop or desktop unit? Before deciding, ask the school some questions. Most likely, the school will say that either Macs or PCs are fine. But a campus visit often reveals a predilection, more often than not, for Macs. And going with the dominant system means more access to software, better support, and easier printing. The best way to determine a school's preference is to see what's on campus, especially in the "computer clusters" for student use in libraries and elsewhere.

Also check how students communicate with the campus computer network. If it's by a dial-up connection, it matters less what type of computer you buy. But more and more schools are running their networks directly into dorm rooms. This arrangement is a compelling argument for a Mac. All Apple machines come ready to plug into the Ethernet networks used on nearly all campuses, while setting up a Windows unit for network duty remains a black art.

The laptop-desktop decision is quite different. Laptops have two great advantages. They're portable, so your student can take it to the library, lecture hall, or just to work in the shade of a tree. And laptops take up less space in cramped dorm rooms. But a laptop costs at least $1,000 more than a desktop with similar performance. And college laptops have a tendency to develop legs, so make certain that it's insured.

If you choose the Mac, your choices are limited to Apple's offerings. Unless your student is a potential power user, the best desktop choice is probably one of the compact, multimedia-capable, Performa models. Prices start at about $1,200 for units with 8 megabytes of RAM memory, a practical minimum. Portables start at about $2,200 for a monochrome PowerBook 520, or $2,900 for one with color.

RANGE ROVING. If your student wants a computer mainly to handle E-mail and write papers without complicated drawings or equations, just about any 486 Windows machine on the market—prices start at about $1,000—will do. Just make sure to get at least 8 megabytes of RAM and a 350-megabyte or bigger hard drive. Heavier users will want a fast 486 or a Pentium, which will push the price into the $2,000 range. Usable laptops start around $1,500; cheaper portables generally are underpowered monochrome units with tiny hard disks and too little memory. Even the cheapest machine will likely come with a useful bundle of software, and an all-in-one "works" program may well meet most or all of a student's needs.

If you buy a Mac, a school may well offer the best deal because of Apple's student discounts. For a Windows machine, you may do better at a superstore or with a mail-order company.

And what will Jon take to college? Since he'll be studying computer science, he needs more than a minimal system. And because both he and his college are partial to Macs, Jon will be buying a Power Mac—most likely a midrange 7100—through the school.

BULLETIN BOARD

OPERATING SYSTEMS

WARP PICKS UP SPEED

IBM's latest addition to OS/2 fills the biggest gap in the Warp operating system that was released last fall. Warp Connect gives office computer users a way to hook up their PCs to local- or wide-area networks, including the Internet, without having to

use other programs. The package supports a variety of networks, including Novell NetWare, and provides small businesses with a simple system that lets OS/2 machines talk directly to each other. But difficult setup routines mean that installation is probably best left to professionals. Warp Connect costs $299; OS/2 users can upgrade for as little as $139.

CUSTOMER SERVICE

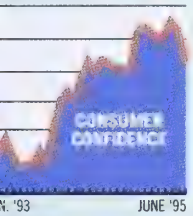
GATEWAY GETS WISE

Computer manufacturers are bracing for a flood of help calls from befuddled customers when Windows 95 ships in late August. Gateway 2000, which admits that customers calling for support have often encountered busy signals or long waits on hold, is getting ready by setting up a 24-hour, 7-day-a-week help operation. And because Gateway is having trouble finding workers in its home of North Sioux City, S. D., and neighboring Sioux City, Iowa, it plans to build a staff of more than 750 people at a new support center in Kansas City, Mo.

AMES C. COOPER & KATHLEEN MADIGAN

ONSUMERS MAY BE TIGHTFISTED, UT BUSINESS ISN'T

U.S. ECONOMY In past expansions, business spending was usually the omy's wallflower. Not this time. Outlays for new ts and equipment have been the life of the party. with increasingly wary consumers likely to lift r spending only modestly, a strong capital-goods or is a big reason why the second-quarter slowdown 't turn into a second-half rout.



DATA: CONFERENCE BOARD

The contribution of business spending to the economy is striking. Since the end of the recession in 1991, equipment outlays, just 11% of the economy, have accounted for a hefty 36.4% of the growth in real gross domestic product. And over the past year, outlays for business construction are up 11.6%. This capital-spending boom is the ngest of all postwar expansions.

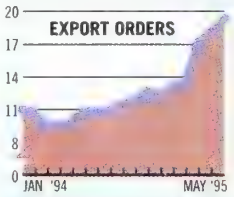
y comparison, consumer outlays, even with last 's buying binge, have risen at their weakest pace. sumers get most of the attention, though, because r spending drives two-thirds of the economy's out- And after all, discussing trends on cars and hous- is a lot sexier than analyzing outlays for machine s and computer peripherals.

S ROLE REVERSAL isn't hard to figure. With -tech prices falling, capital is becoming increasing- heap relative to labor. As businesses invest in e efficient machinery, they need fewer workers. ter productivity generates healthier profits and al- businesses to buy even more equipment. That's factory orders for durable goods remain at a level.

turn, though, the fortunes of Household America e paled beside those of Corporate America. Slack r demand has held down wage growth, and thus umer spending. The buying spurts of 1993 and had their roots in the wave of refinancings and ter use of credit, rather than in fat pay raises.

hat's why the Federal Reserve's interest-rate hikes e hit consumers hard this year. And now, this umer-led weakness has forced businesses to adjust r inventories, causing cutbacks in output and em- ment. Not surprisingly, consumer confidence wilt- n June (chart), but households, while down, are not The May gain in existing home sales and weekly reports on June retailing suggest that less optimism isn't killing spending.

Even amid consumer weakness, the increased spending by businesses will limit the production losses in manufacturing. Factory orders for big-ticket durable goods that are built to last three years or more managed to rebound 2.5% in May, after declines in March and April. The gain was widespread, but the 6.8% jump in nondefense capital goods emphasizes companies' commitment to productivity. Even excluding aircraft, whose hefty price tags can swing the data sharply, capital-goods demand rose 4.1%.



DATA: ASSOCIATION FOR MANUFACTURING TECHNOLOGY, BUSINESS WEEK

To be sure, capital spending will slow from last year's booming pace. But so far in the second quarter, shipments of capital goods are running 8.3% at an annual rate, above their first-quarter average, which was 22.8% above the fourth quarter. Although slower than in the winter, the spring increase suggests that equipment investment added to GDP growth last quarter, and further gains are likely.

That's because the backlog of unfilled capital-goods orders so far in the second quarter is also rising, for the third straight quarter. That means makers of business machinery, especially computer-related equipment, will continue to lift production in the second half.

FOR THE OVERALL ECONOMY, increased business spending has many implications. For one thing, a productivity jump at companies means that corporate profits may not slow that much, even if the economy overall grows at a modest 2%-to-3% pace in coming quarters. For another, U.S. companies are more competitive globally. That will help boost exports, the other sector expected to keep the economy dancing into 1996.

In fact, U.S. manufacturers are benefiting from the global efficiency push. Orders for U.S.-made machine tools rose 5% in May, or 20% above their year-ago pace. The big gain was in export demand, which has skyrocketed (chart). In May, foreign orders jumped 81% from April. And so far in 1995, foreign orders have more than tripled from their 1994 pace.

The productivity crusade also means that inflation will continue to be well behaved in this upturn. The downside, of course, is that wage growth will stay

ERIC HOFFMANN/BW

anemic. And hiring, especially among goods producers, will be sluggish, with layoffs still making headlines.

LABOR-MARKET LETHARGY was surely a factor in the large drop in consumer confidence in June. The Conference Board's index fell to 92.8 from 102 in May, the largest decline in three years. Eight of the nine regions reported lower readings. But while the Board noted that the size of the drop was "disconcerting," it also said that confidence remains at a level historically associated with a strong economy. Indeed, the June reading is still above the average for all of 1994, when consumer spending was quite strong.

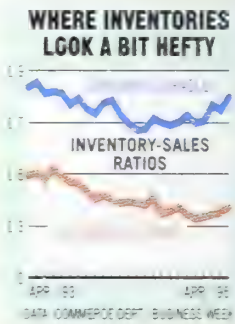
There is no evidence yet that the drop in confidence is translating into a retrenchment in spending. On the contrary, retail sales through the first four weeks in June rose a solid 1.5% from May, says the *Johnson Redbook Report* retailer survey. And May sales of existing homes rose a hefty 4.7%, to an annual rate of 3.55 million. All regions except the Northeast posted gains.

As has been true throughout this expansion, consumer confidence has proved to be more of a lagging indicator of households' reaction to newspaper headlines and less of a leading indicator of future spending.

The split between consumer and business spending is why the current problem with excess inventories is greater among consumer-related industries. The ratio of inventories to sales for capital-goods manufacturers, for instance, has been trending lower throughout thi expansion, and in April stood near its record low. That why the manufacturing inventory-sales ratio overa looks so slim.

Makers of consumer durables, however, saw their in ventory-sales ratio touch bottom in May, 1994, an the ratio has been trending higher ever since (chart So, too, retailers have seen their merchandise stock grow out of line with their sales. Hardest hit hav been apparel stores, where the inventory-sales rati has jumped to its highest reading in 10 years.

The rebound in existing home sales and the improvement in June retail buying suggest that the stockpile of consumer goods will become more manageable in coming months. That should help industrial output to recover in the second half.

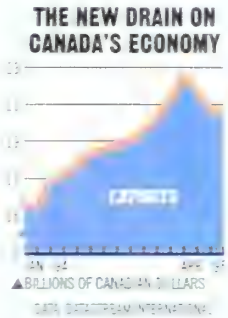


Unquestionably, consumers have long been the main focus in the outlook. And given their size in the economy, consumers will not go unno ticed in the second half. But the expansion's tune of ris ing productivity and cheap capital is a bit differen now, and the usually overlooked business-spending sec tor will enjoy more of the limelight this time around.

CANADA

A CHILL WIND BLOWS FROM THE SOUTH

The U.S. economy has sneezed, and Canada has caught a cold. Slower U.S. growth has hit Canadian exports at a time when its domestic economy is already laboring under high interest rates, the result of rapidly growing government debt, a weak currency, and Quebec's plans for an independence referendum this fall.



The slowdown has come suddenly. The economy barreled along at a 6% clip most of last year, led by exports, only to see growth plunge to 0.7% in the first quarter, and second-quarter growth looks to be negative. Real retail sales and exports in April began the quarter far below their first-quarter levels, and May housing starts were the lowest in 15 years. Inventories have backed up, requiring production cuts that will extend the softness into the third quarter.

Canada's top policymakers believe the country will avoid a recession, however, and most private analysts agree. Of course, the second half depends on how fast U.S. growth recovers. Also, the Bank of Canada has cut interest rates three times in the past six weeks, and BoC Governor Gordon G. Thiessen indicated on June 20 that more cuts are coming. Steering the needed policy-easing around the weak Canadian dollar, however, could be tricky.

The slowdown is reviving fears about Canada's public debt, which totals about 100% of gross domestic product. However, a slowdown short of recession will not balloon the deficit, and it will take pressure off inflation, which ticked up to 2.9% in May. That will allow lower interest rates. And since interest is 25% of Ottawa's budget, the deficit is more sensitive to a 1% change in interest rates than to a 1% change in GDP.

Finance Minister Paul Martin is making cuts aimed at trimming federal red ink to 3% of GDP by 1997, from 5.1% now. The provinces are also making progress: Ontario's new premier, Mike Harris, who was elected on a balanced-budget platform, is expected to act quickly to repair the largest province's finances, as long as Canada's cold doesn't get worse.

Inventory.
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TRADE

GOOD DEAL? YES. GREAT DEAL? NO

America wins the face-off with Japan, but gains are modest

The phone rang in the Oval Office at 8 a.m. on June 28. A weary Mickey Kantor was calling with good news: At the last moment, marathon talks with Japanese negotiators in Geneva had produced the outlines of a deal to resolve a bitter trade dispute. "We're just dotting the i's," the U.S. Trade Representative told Clinton. After his advisers endorsed the pact, Clinton phoned back: "Hey, Mick. Congratulations! It sounds like you did great."

Clinton had good reason to cheer. His gamble of threatening sanctions against Japan had paid off: He won concessions from Tokyo that could result in significant increases in sales of U.S. autos and auto parts to Japan (table). "This breakthrough is a major step for free trade throughout the world," Clinton said in announcing the pact. Moreover, the President's high-stakes brinkmanship averted a bruising trade war, a legal showdown that could have shaken the new World Trade Organization, and a string of bankruptcies among U.S. dealerships that sell Japanese luxury vehicles.

INSTANT RESULTS. The deal immediately buoyed the sagging dollar against the yen and inspired a modest rally on Wall Street. It also won plaudits from just about everyone affected. Employees at Warnock Lexus in Livingston, N.J., huddled around a television to hear Clinton announce the deal—and let out a collective sigh of relief at word that the President's threat to slap 100% punitive tariffs on their autos would be dropped. "I'm elated," says Warnock CEO Peter G. Jarvis. "Now we don't have to face an economic crisis." Detroit's Big Three were equally euphoric. "We've never, ever gotten anything like this before," says Robert J. Eaton, chairman of Chrysler Corp. "This represents a sea change. The Japanese see they must open their markets."

Perhaps. But there's also a touch of the champagne talking. While the deal marks a big political victory for a President known more for flip-flops than resolve, the substance of the accord is less grandiose. True, it will increase sales of U.S. parts and vehicles. But much of the parts-purchase concessions by the Japanese had been in the works for months. And the soaring yen already has been driving the car companies to move more production and purchasing offshore to U.S. and Asia. "This agreement is like pushing on an open door," says Michael Aho, senior economist with Prudential Securities Inc. Significantly, back in Tokyo, Japanese companies were crowing, too. "We preserved the rules of global free trade," says Toyota Motor Corp. Chairman Shoichiro Toyoda.

For one thing, of the $9 billion in U.S. components that Japanese auto makers have pledged to buy, the lion's share will be purchased by transplants in the U.S., not in Japan. And there's one giant omission: The Japanese government managed to keep any strict enforcement mechanisms out of the deal. That means that while Japan's auto makers agreed to meet significant numerical targets, Tokyo bureaucrats did not—and can walk away from the deal. "With regard to numerical targets, the Japanese stance that this is outside the scope of the government is maintained," says Minister of International Trade & In-

BACK FROM THE BRINK

TRADE WARRIORS: *Hashimoto and Kantor before the deal was struck*

y Ryutaro Hashimoto. ernational Union of rical Workers President m H. Bywater figures nows what that means: ounds like one of those ments where we pledge, pledge, and there are no to it." Even a top Clin- lviser concedes: "We shot cannon and came back a modest result."

e deal, nonetheless, is a y in many respects. It could give n a badly needed boost politically, e thing. Polls show 70% of Amer- backed his tough stance. The auto d is a hit with blue-collar voters in dustrial heartland who are critical nton's reelection hopes. It also may y economic nationalists who op- Clinton's free-trade moves in Lat- nerica and Asia.

mmering out an accord hours before .S. was to slap $5.9 billion worth of ions on Japanese luxury- car im- also carries an implicit warning to Asia's emerging-market nations. Many have sought to mimic the Japanese model of export-oriented industrial policy buttressed by sanctuary markets at home. "This certainly will strengthen our hand in other trade negotiations in Asia," says Robert D. Hormats, vice-chairman of Goldman Sachs International Corp.

And increased sales for U.S. auto parts makers will be far from negligible. Tokyo agreed to review rigid inspection rules, which have effectively blocked U.S. producers of replacement parts, such as shocks and struts, from the Japanese market. And Japanese auto makers' plans to purchase $9 billion more in foreign parts will mean bigger sales both in Japan and at U.S. transplants. "This opens up a whole other realm of possibilities with the Japanese car manufacturers," says Dana G. Mead, chairman and CEO of Tenneco Inc. Adds John F. Fiedler, CEO of Borg Warner Automotive Inc.: "There will be an opening to sell more auto parts in Japan. Now, we have to do it."

NO WAFFLING This time, aided by broad support from the GOP, labor, and U.S. industry, Clinton didn't relent

The weak enforcement provisions in the deal may not be much of an obstacle in the end. Chrysler and the other U.S. auto makers say the deal's monitoring provisions will be enough to make sure Japan delivers. "Progress, or lack of it, will be very easy to see," says Alex Trotman, Ford Motor Co.'s chairman. "And if we aren't making progress, we'll be back to the bargaining table." Japan's auto makers have a good track record in keeping such deals, too. In 1992, they promised President George Bush they would double purchases of U.S.-made auto parts. And they have, to $19 billion in the latest fiscal year.

AIR WAR. But for the new agreement to really succeed, the Big Three will have to put some muscle into its marketing efforts in Japan. Japanese officials like to note that German carmakers have half as many outlets for their cars in Japan, and sell five times as many vehicles. There are encouraging signs that Detroit will follow through this time. On June 27, Chrysler announced it was investing $100 million to acquire a majority stake in its main Japanese auto distributor. And Ford said it is cutting retail prices in Japan of American-made replacement parts for its vehicles.

This is surely not the last U.S.-Japan fracas over auto trade. There will no doubt be confrontations as Kantor & Co. try to enforce compliance with a new batch of numerical targets. And even as this crisis ebbs, new trade showdowns loom over U.S. landing rights for passenger and cargo air carriers. Then there's Kodak's massive trade complaint that Tokyo officials have collaborated with Fuji Film to limit access to Japan (page 34).

For American trade warriors, prying open Japanese markets may have moments of euphoria—but it's still a job that has no ending.

By Amy Borrus in Washington, with John Templeman in Geneva, Keith Naughton in Detroit, Edith Updike in Tokyo, and bureau reports

e negotiators wrested numerical targets out of Japan on two of or issues—a significant victory

RTS By 1998, Japanese s will expand their produc- ade-in-America cars by That also will help them edge to increase their pur- parts from American sup- $9 billion, or nearly 50%, The additional parts will s sold both in the U.S. pan.

JAPANESE DEALERSHIPS Over the next five years, Japan will increase the number of auto dealers stocking U.S. cars by 1,000, to about 3,000. The Japanese also will review the possibility of more dealerships for European auto companies.

ARKET PARTS Regula- have blocked the sale of acement parts in Japan sed. That could create ties for such products as Monroe shock absorbers.

TRADE

NEXT, A FLAP OVER FILM?

Washington may soon back Kodak's beef against Japan's Fuji

Kodak vs. Fuji: It's one of the classic battles in global marketing. But despite decades of slugging it out in the worldwide film market, neither has made much headway on the other's home turf. In Japan, where Fuji Photo Film Co. sells 70% of all consumer film, Eastman Kodak Co. has clawed its way to just 9% of the market. In the U.S., it's a near mirror image, with Kodak just over 70% and Fuji at about 11%.

Nationalistic consumer loyalty at work? Kodak doesn't think so. On May 18, it launched a trade complaint against Japan, hoping to get the U.S. government to help pry open the Japanese market. Most observers think that by early July, U.S. Trade Representative Mickey Kantor will decide to pursue Kodak's case—setting in motion yet another U.S.-Japan trade dispute.

PRICE-FIXING? A close look at how the two giants dominate their markets shows that the case isn't cut-and-dried. Kodak's marketing in Japan hasn't always been on target. And Kodak berates Fuji for using some of the same tactics in Japan that Kodak itself employs in the U.S.

Kodak's primary complaint, though, is compelling: that Fuji has a almost vise-like grip on Japanese film distribution. In Japan, film is sold in a multi-tiered system, with a few dozen distributors at the top, hundreds of secondary wholesalers, and nearly 400,000 mostly mom-and-pop retailers at the bottom. Fuji has lined up the four biggest distributors that other account for 70% of film sales.

Kodak CEO George M. C. Fisher claims that Fuji and the Japanese government constructed this cozy system in the 1970s to keep Kodak at bay as tariffs were dismantled. He also says that Fuji now effectively controls the four distributors through banking and other financial relationships—and rigidly fixes prices.

Fuji counters that it has done business with its distributors for years and doesn't prevent them from selling rivals' products. Plus, Japan's market is far from closed. There are no tariffs on imported film, and fast-growing discounters and supermarket chains are open to newcomers. By making private-label film for big retailers, Germany's Agfa has grabbed 5% of Japan's film sales since reentering the market in 1990. "If you want to make a strong effort, you can succeed," says Walter Stork, president of Agfa-Gevaert Japan Ltd.

Kodak execs privately concede they've made some marketing errors in Japan. But, they say, that doesn't account for Kodak's lack of Japanese distribution: Its film is sold in just 15% of retail outlets, mostly in big cities. "I'm not asking for dictated market shares or retaliation," says Fisher. "Let's just find out what free and open competition will allow."

The U.S. market, by contrast, comes closer to being truly open. Film is distributed directly by manufacturers, and Kodak places its yellow boxes virtually everywhere. But Fuji, which entered the country in 1970, now sells its film in outlets that account for roughly two-thirds of U.S. film sales, including such giants as Wal-Mart, Kmart, and Walgreen.

Kodak keeps its 70% market share mainly through a powerful brand name and hard-nosed marketing. In a recent survey of U.S. perceptions of brand quality by Total Research Corp., Kodak was No. 1, besting such icons as Walt Disney and Mercedes-Benz. Plus, says David Ritz, president of the 510-store Ritz Camera Centers Inc. chain, "Kodak has done a better marketing job by far than Fuji."

RETAIL SWEETENER. It also throws its weight around. Take its Volume Incentive Program, which gives many retailers a 3% rebate if they match their previous year's film sales. Paul E. Gordon, Konica USA Inc.'s marketing director, says the program "makes it difficult for the retailer to try an off brand" since that might cut Kodak sales, risking the loss of the rebate. Indeed, Kodak has accused Fuji of controlling distribution in Japan, in part through secret rebates and other financial ties. But, says consultant Don Becker, "some of Fuji's marketing practices in Japan aren't all that different from what Kodak does here."

Another seeming inconsistency: Kodak alleges that Fuji unfairly controls 56% of Japan's photographic paper business. But rivals note that Kodak itself has snapped up a raft of U.S. wholesale photofinishers into its Qualex Inc. unit, controlling 70% of U.S. wholesale photo finishing. And Qualex labs use—guess what—Kodak paper and chemicals.

Tough tactics, to be sure. But at least U.S. retailers and consumers can pick products from many companies. If Japan's distribution opened up, Fisher believes, Kodak could eventually win up to 40% of its market. That's probably wildly optimistic. But he may soon get a chance to try.

By Mark Maremont in Boston, with Brian Bremner and Edith Updike in Tokyo

FILM WARS

KODAK IN JAPAN

DISTRIBUTION Unable to gain access to the four major Fuji distributors that control 70% of the market, Kodak is selling through discounters

MARKETING Despite sponsoring sumo wrestling and soccer, Kodak can't match Fuji's $190 million in annual ad spending

ETC. Kodak is starting to sell its own private-label film this year but is way behind Germany's Agfa

FUJI IN THE U.S.

DISTRIBUTION Fuji is sold in most high-volume outlets, including Wal-Mart, Kmart, and Walgreen, but Kodak gets better shelf space

MARKETING Fuji's lower price has won it the value-conscious consumers it targeted, but Kodak has maintained high-margin pricing

ETC. Fuji was locked out of color paper by Kodak's dumping complaint, so it's building a factory in South Carolina

COMMENTARY

By Howard Gleckman

YOU CAN'T BALANCE TOMORROW'S BUDGET TODAY

With formal passage of its 1996 spending blueprint, Congress is plowing ahead with the ost dramatic shift in federal bud- et policy in 25 years. By the time awmakers fill in the blanks this fall, ey will have gone a long way to- ard overhauling government and liminating chronic deficits.

But will these changes really bal- nce the budget in seven years, as e Republicans pledge? Or even 10 ears, as President Clinton vows? on't bet on it. Says former Con- ressional Budget Office director obert D. Reischauer: "I'll sell you y youngest child if the number in 002 is zero."

HO'S RIGHT? There are many good easons this year's budget probably on't balance the books: Economic onditions for the next 10 years are nknowable. The savings from radi- al changes in Medicare and Medic- id are uncertain. Real cuts in many rograms won't be made for years. here are no reserves for unexpect- d disasters. And it will be impossi- le to estimate what massive tax re- orm will do to federal receipts. In hort, by unconditionally embracing eir bumper-sticker pledge to bal- nce the budget by 2002, Republi- ans run a big risk of disappointing ready cynical voters.

The biggest uncertainty: The econ- my. The CBO projects average rowth of just under 2.3% for the ext decade, while Clinton's Office of Iana gement & Budget reports about .45%. The difference may seem triv- l, but the CBO's projection would ave the White House with a $62 illion deficit instead of a small sur- lus in 2005. Which side is right? Nobody can say for sure what will happen," concedes CBO Director June E. O'Neill.

In an economy that will reach $12 trillion by 2005, even tiny shifts in the pattern of growth can wreck the best fiscal plan. If the economy slumps later this year, then snaps back to the projected growth trend, the 2002 deficit still would exceed $50 billion. On the other hand, if planned GOP tax cuts boost the economy as promised, new revenues could speed deficit reduction.

That's just part of the problem. Both Clinton and the GOP are mulling over Medicare reforms that would ease seniors into health-maintenance organizations. But no one really knows how much this approach can save. OMB figures that Medicare costs will rise 8.2% annually over the next decade, while the CBO puts the rise at 10.3%. That's a spread of $52 billion in 2005 alone. "They are guessing," says Marilyn Moon of the Urban Institute.

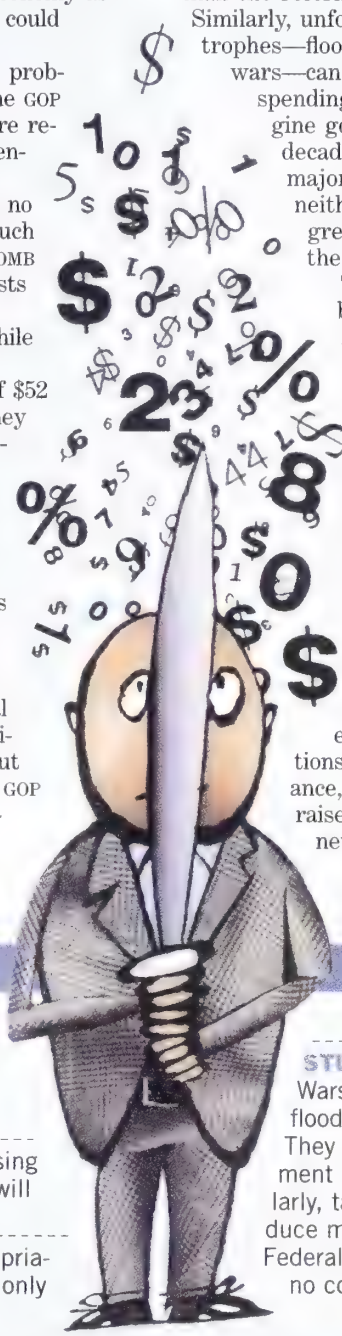
Whatever the actual savings in Medicare and Medicaid, at least the changes Congress makes in 1995 will affect those programs for years to come. For other spending—from environmental protection to trade subsidies—Congress has to cut one year at a time. The GOP vows to slash these programs by $190 billion through 2002. But this year's slice will be only about $10 billion. Already, pressure is building to protect pork-laden projects.

Other potential problems: GOP plans for major tax reform could scramble federal revenues. If the 1986 Tax Reform Act is any indication, big changes in the tax code will produce massive, unanticipated shifts in federal receipts. By 1991, for example, receipts were $100 billion less than the reformers had figured.

Similarly, unforeseen catastrophes—floods, oil shocks, or wars—can force hefty new spending. It's hard to imagine going through a decade without something major going wrong, but neither Clinton nor Congress has budgeted for the inevitable.

The GOP's failure to balance the budget shouldn't diminish the significance of the coming cuts, which will approach $1 trillion. After all, a zero balance is an artificial target that means little to Main Street or to economists. It's real progress just to get the deficit below 1% of gross domestic product by 2002. The problem, rather, is one of expectations: By promising balance, the GOP may have raised voter hopes it can never satisfy.

Gleckman covers the budget process.



WASHINGTON POTHOLES AND PITFALLS

Likely obstacles to a balanced budget

HE ECONOMY Does anybody really know what the econo- ny is going to look like in 10 years? Or in 10 months? A slow- own would curb tax revenues and force spending up.

EDICARE Congress wants to thin the bloated monster by easing e elderly into health maintenance organizations. How many will o? How much will it save? No one has a clue.

OMESTIC SPENDING Congress would cut nondefense appropria- ons by nearly $200 billion over seven years, but it will make only 10 billion in real cuts this year. The rest? Um, later.

STUFF HAPPENS Wars, earthquakes, floods, oil embargoes. They all cost the government lots of money. Similarly, tax reform could produce massive shifts in Federal receipts. There is no contingency for either.

BYE BANKERS: *CFO Timothy Yates wi take early retirement next summer*

BANKING

BRAIN DRAIN AT BANKERS TRUST

Early retirements, resignations. Is a merger in the cards?

Charles S. Sanford Jr. got rave reviews for his performance at an April dinner he hosted for Wall Street analysts. The Bankers Trust New York Corp. chairman and CEO was gracious with his guests and openly discussed his bank's operations and his goals for 1995. "He was terrific," says David S. Berry, director of research at Keefe, Bruyette & Woods Inc. "Just what you'd want."

Except for one thing: Sanford didn't say that within the next month, he would announce his plans to retire in 1996, when he turns 60. Then on June 22, 48-year-old Chief Financial Officer Timothy T. Yates followed suit, disclosing plans for early retirement next summer. Bankers vehemently denies that the planned departures are anything but voluntary and routine, and the bank's directors would not discuss them.

UNSTABLE. The uncertainty that situation creates, though, underscores the fact that Bankers Trust remains in a state of upheaval. After a year marred by client complaints and lawsuits surrounding its derivatives business, the bank appears unable to find stable ground. The planned departures of Sanford and Yates follow a raft of resignations by some of Bankers' top talent (table). And the market for exotic derivatives, a key one for Bankers, is in a slump.

Bankers has a gaping hole where a succession plan should be. Its board, led by former Philip Morris Chairman Hamish Maxwell, plans to conduct a wide-ranging search for a successor, but it has yet to retain an executive search firm for the job. People familiar with the situation think it is unlikely Bankers will fill either the CEO or CFO job before next year.

Now, with a vacuum looming at the top, many investors and analysts question whether Bankers Trust can remain independent. "I've got to believe that from a financial and strategic point of view, the whole option of pursuing a strategic partner would have to be in consideration," says Judah Kraushaar, a banking analy at Merrill Lynch & Co.

Market sources say Cha lotte (N.C.) NationsBan Corp. may be considering bid for the big New Yo bank. Investment bankers ar also talking to foreign bank and other clients about th logic of an offer for Banke Trust. "Is the situation u stable and susceptible to friendly merger? Yes," say a former Bankers executive who resigne recently. Bankers and NationsBank sa they will not comment on rumors.

Analysts believe Bankers could fetc close to $6 billion in a takeover. Fo that, however, a buyer would get a ban hit by a rash of resignations. A spokes man says the number of departures th year is normal. Perhaps, but since Janu ary, Bankers has lost most of its emerg ing-markets group, its mergers chie and numerous others.

ACTIVE BOARD. The departures come a ter a year in which net income droppe 38%, to $615 million. In 1994, Banker Trust settled a derivatives-related law suit by Gibson Greetings Inc. and frau charges brought by the Securities & Ex change Commission and the Commod ity Futures Trading Commission, whil agreeing to revamp some sales practice and controls under the Federal Reserv Board's supervision.

Now, sources say that the bank's di rectors, particularly Maxwell and for mer IBM Senior Vice President Georg B. Beitzel, are actively involved in run ning Bankers today. Maxwell did not re turn calls, and Beitzel declined comment A company spokesman says that "th board is in a period of acute activit within their traditional roles."

Even with their involvement, though Bankers' prospects don't lool great. Several rating agencie have lowered the bank's cred it ratings, creating an extr hurdle for it in the deriva tives market. Analysts expec that after a $122 million first quarter loss, earnings will b less than half 1994 levels. An a lame-duck executive suit may be hard-pressed to tur things around. It's hardl a formula for long-term inde pendence.

By Kelley Hollan in New Yor

EXIT SIGN Bankers Trust executives who have bailed out in 1995

CHARLES SANFORD JR.* Chairman and chief executive officer	**JEROME POWELL** Head of mergers and acquisitions
TIMOTHY YATES* Chief financial officer	**IGNACIO SOSA** Head of global finance sales
NEIL ALLEN Head of emerging markets	**RICHARD CARBONE** Business manager, individual services group

*Resignations effective in 1996

DATA BUSINESS WEEK

OBERTO GOIZUETA: N AMERICAN TALE

ca-Cola's CEO finally recounts his family's flight from Cuba

oberto C. Goizueta will always remember Jan. 2, 1960. His wife, Olga, was going into labor with their third d. As their car stood idle in the drive-, the Goizuetas were forced to wait an ambulance. Cuba's new ruler, Fidel tro, had outlawed private transporta-n. En route to the hospital, they sed jeeps loaded with Castro's armed chmen—"the bearded ones," Goizueta alls. Castro had made his move. Now, time was fast approach- for Goizueta to make "Sooner or later," he s, "we knew we had to ve."

That August, Goizueta his wife left Havana a jet to Miami. Educat- in American schools, h had traveled to the S. many times before. ey had planned a two-ek vacation; in fact, ugh, they never re-ned. Reunited with ir three children, who been sent to the U.S. nths before to live with atives, the Goizuetas k their places among thousands of refugees ing Castro's Cuba.

As chairman and CEO of ca-Cola Co., one of the rld's truly stateless cor-ations, Goizueta refus- to discuss global poli-. Cuba is no exception. "That whole ban experience is a very personal ng for him and his family," says Don- R. Keough, who retired in 1993 as ke's president. On July 4, however, zueta will address a group of Amer-n immigrants taking the oath of citi-ship at historic Monticello, part of annual celebration organized by the omas Jefferson Memorial Foundation . Goizueta, 63, the first corporate eftain to speak at the event, will re the story of his passage from Cu-n immigrant to American citizen.

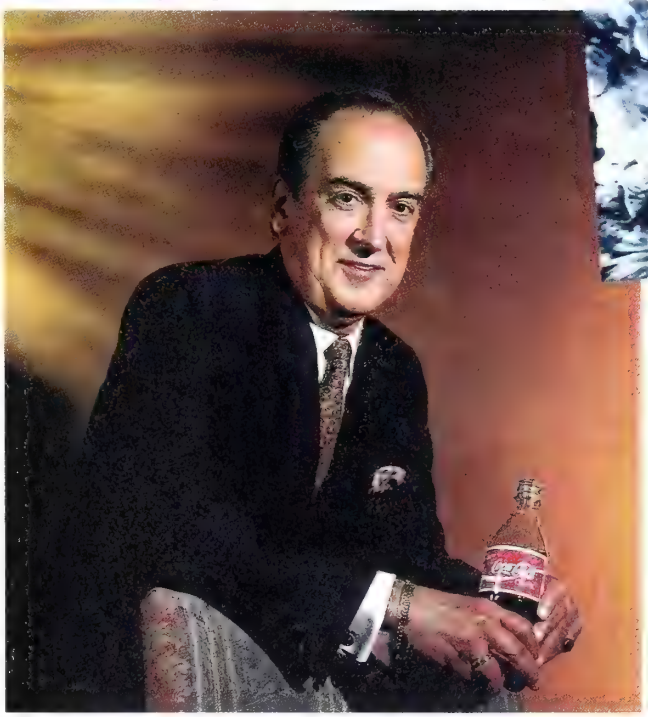
VER SPOON. Before Castro's ascen-n in 1959, Goizueta's future seemed ure. The only son of Crispulo and la Cantera Goizueta, he was heir to a nily sugar cane enterprise started by grandfather, who moved to Cuba m Spain in the early 1900s. Goizueta's father, an architect who had added a construction and hardware company to the family holdings, sent his son to the U.S. to attend Cheshire Academy and then Yale University.

A year out of Yale, Goizueta spotted a newspaper ad from an unnamed U.S. company seeking either a bilingual chemist or chemical engineer. The elder Goizueta agreed his son could pursue the job, provided he worked Saturdays with his dad. The American company? Coca-Cola. Goizueta, then 22, reported to work in Havana on July 4, 1954.

By the summer of 1960, Goizueta had worked his way to top technical director for the five Coca-Cola bottling plants on the island. By that time, too, Castro had begun a campaign to curb foreign investments. The government was pressuring Coca-Cola to buy caramel coloring and other ingredients from Cuban suppliers. And on one occasion, Goizueta was stopped for a random search of his briefcase.

It was this type of pressure, and the arbitrary seizure of personal property, that turned the Goizuetas' two-week vacation into a permanent relocation. Goizueta says the move was not premeditated; only after arriving in Miami and reuniting with their family did the couple seriously consider not returning to their homeland. Shortly afterward, Goizueta's parents and sisters left Cuba as well; they went to Mexico.

PRECIOUS PAPER. Although Goizueta guards it closely, the pain of that long-ago journey lingers. He recalls leaving wedding gifts, family pictures, his Yale diploma in his home. The only property he held on to was 100 Coke shares he had bought through a U.S. custodial account with $8,000 loaned by his father. The shares, which he still owns, now are worth nearly $2 million. Yet Goizueta has declined to dwell in the past. "I'm one of those who just pulls down the curtain," he explains. "When something is over, it's over." Two months after he left Cuba, the government seized Coca-Cola's bottling plants.



A VANISHED WORLD: *Born into wealth, Goizueta was 7 when he posed with his sister Vivian and 16 when he went to the beach with future wife Olga*

Without any savings, Goizueta moved his wife and children into a cramped motel room on Miami's Venetian Causeway. A curtain divided the room. His children and a nursemaid slept on one side, he and his wife on the other. Like many of his Cuban brethren, he didn't think Castro's rule would last. "Everybody in Miami—up until the Bay of Pigs—thought it was just a matter of time," he says. "Nobody thought it was going to be 36 years."

One thing did not change: He still had a job with Coca-Cola. Coke opened an office in a Miami airport hotel for Goizueta and a secretary and, a year later, moved him to Nassau to help oversee the Caribbean. In 1964, Goizueta came to Atlanta; within two years, he was promoted to vice-president in

LEFT: PHOTOGRAPH BY ANN STATES/SABA

charge of the technical research and development organization. He was 35, at the time the youngest person to attain that title.

Personally, the transition to Atlanta's parochial environment was sometimes bumpy. His children were periodically mocked at school. "'Goizueta' is not like 'Smith' or 'Jones,'" he explains. "You would go to a gathering, and people would kind of question you as a strange person, foreign-born." Within Coke, though, Goizueta advanced quickly, catching the eye of potentate Robert W. Woodruff. And on a muggy 1969 day, his life as an American began officially: With his wife, he took the oath of citizenship.

When he takes the dais at Monticello, Goizueta will pay tribute to his adopted country. Only in America, he says, could an immigrant run a company that so symbolizes a nation's culture. He'll also leave the new citizens with some instructions. "Opportunity comes accompanied by obligations," he will say. "First, you must seize it; take it into your hands and mold it and put it to work for the benefit of society... Second, you must live it... The third obligation is that you must defend it."

After he finishes, Goizueta plans to stand with the immigrants and restate his oath of citizenship. No other speaker has done that before, say Monticello officials. Few others had more reason to.

By Maria Mallory in Atlanta

DETROIT

IT WORKED AT LOTUS. WILL IT WORK AT CHRYSLER?

Kerkorian's next move may be a bid to install a new board

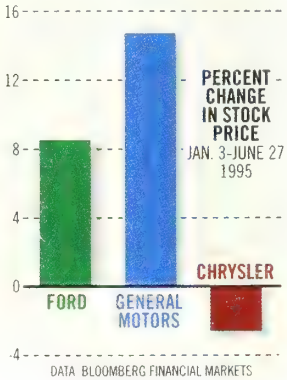
In Las Vegas, where Kirk Kerkorian made his fortune, it's called doubling down.

With his June 26 move to double his $700 million bet on Chrysler Corp. by buying an additional 4% of the company's stock—thus raising his stake to 13.6%—the Vegas financier is showing he doesn't intend to walk away from the action at the nation's No. 3 auto maker. Kerkorian's latest tender offer for 14 million shares is yet another attempt to pressure the Chrysler board into doing something more to hike the company's lagging share price.

Since May, when his privately held Tracinda Corp. withdrew its $20.5 billion hostile bid for Chrysler, the 77-year-old Kerkorian has ceased activity on his takeover. The once furious pace of meetings with potential partners and bankers has ended, says longtime lawyer and adviser Stephen D. Silbert. Kerkorian is no longer canvassing other shareholders, either. Instead, he will reassess his options after his new tender offer expires on July 25. "We're ruling nothing out," says Silbert, "except selling our shares."

BATTLE PLAN. Despite Kerkorian's efforts, Chrysler shares, currently trading at around 48, are still below their Jan. 3 level—while the shares of both Ford Motor Co. and General Motors Corp. have risen (chart). And when Chrysler board members respond to Kerkorian's current tender offer in mid-July, as securities laws require, Kerkorian's troops intend to mount an attack on any response that does not include a plan to boost the share price, sources say. "There's so much excess cash coursing through their veins that Chrysler stock should be worth at least $65 to $70 a share," says John B. Neff, a portfolio manager at Wellington Management Co., Chrysler's second-largest institutional holder, with more than 15 million shares.

THE GAMBLER
Kirk may be hoping for a massive buyback to lift the stock price



But with no partners or financing in place for an outright buyout, Kerkorian may be down to his last card. His lawyers at Fried, Frank, Harris, Shriver & Jacobson are contemplating a consent solicitation at the end of the summer. This little-used gambit, by which Kerkorian would try to install his own slate of directors without waiting for Chrysler's annual meeting to roll around next spring, is a long shot. But Kerkorian was encouraged recently when IBM forced Lotus Development Corp. into a takeover partly by filing a consent solicitation.

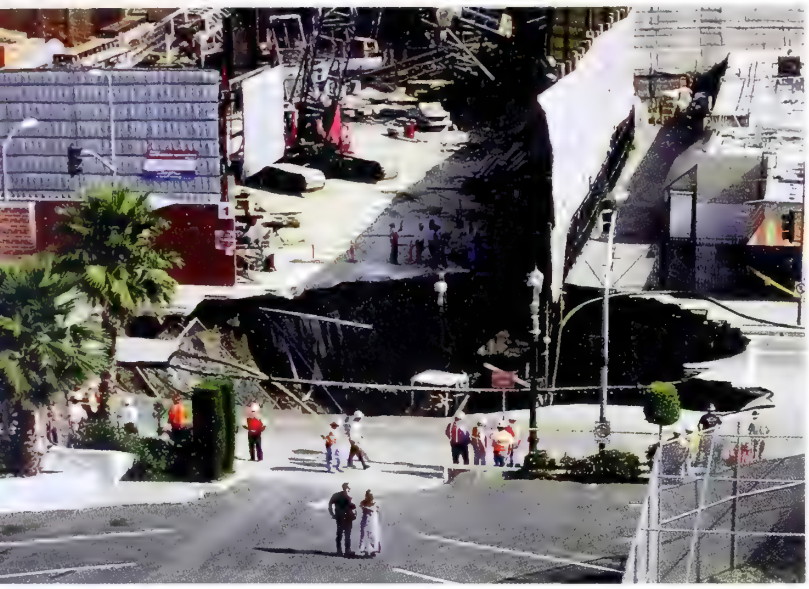
The dealmaker's dream, according to one source close to his team, would be for Chrysler management to back down in the face of such a move and to propose a massive repurchase of its shares. Silbert says that Kerkorian might be satisfied if the corporation plunks down a big chunk of its $7.3 billion cash hoard to supplement a $1 billion buyback already under way.

MONEY TROUBLE. To bring Chrysler Chairman Robert J. Eaton to the table, however, Kerkorian will need more than investment bankers Wasserstein Perella & Co. and his small army of lawyers. The IBM consent solicitation worked quickly and effectively, says Wertheim Schroder Vice-Chairman Peter M. Schoenfeld, a takeover expert, because it was backed with an all-cash offer. And Chrysler executives doubt Kerkorian could muster that. "He still has all the financing problems he had before," says a source close to Chrysler's board.

Chrysler is making sure that Kerkorian continues to have trouble lining up backers. By threatening to take away business from any bank that breaks ranks, the carmaker has forced almost every major U.S. institution to shun Kerkorian. Even Bank of America, which has bankrolled Kerkorian for nearly four decades, stressed that his $900 million credit line could be used only for the tender offer, not a larger bid.

Kerkorian may surprise everyone and launch another bid for all of Chrysler's shares. But it's more likely he will continue his guerrilla warfare, hoping to force Eaton and Co. to take steps that add to the $1 billion in paper profits he has already earned on his Chrysler stake. That's called a poker face. Something else they teach in Vegas.

By Ronald Grover in Los Angeles and David Woodruff and Keith Naughton in Detroit, with Leah Nathans Spiro in New York



WHOOPS: *The boulevard of broken dreams—and pavement*

ANGELES

BWAY FROM HELL THE CITY OF ANGELS

hoddy, scam-ridden, and more overbudget than *Waterworld*

nsider it the $1.3 billion tunnel to hot pastrami sandwich. On any iven lunch hour, it seems just everyone riding Los Angeles' ing subway train is on his or her o Langer's Delicatessen. And why Just hop a train from downtown de out to the end of the line, all of iles away, and you're at Langer's, old deli in a neighborhood that en better days.

ood deal for pastrami lovers may- ut to most of Los Angeles Coun- million residents, the subway in- ngly has the look of a boondoggle. ed a decade ago by then Mayor Bradley to help give L. A. the aura vorld-class metro center, the $5.8 project is plagued by $240 million t overruns, with just 4.4 of its ed 21 miles built.

P AT THE SWITCH. Among its many critics is the federal government, is footing half the tab. In late the Federal Transit Administra- aid it planned to beef up its over- of the often delayed project once —and was debating whether to fund the overruns. "This is the t public-works project in the coun- nd it's turning out to be nothing of disaster," charges State Senator ngtime opponent Tom Hayden.

t stroll down Hollywood Boule- where a 6.7-mile-long extension line has been under construction for more than a year. On June 22, a 65-foot-deep, block-long sinkhole caused the street to cave in as tunnel workers below scrambled for their lives. That gaping hole was the latest in a series of calamities along the construction route. During the past year, portions of Hollywood Boulevard and other streets along three miles of the project have been dipping, sagging, and, finally, caving in, as workers tunnel below.

The Metropolitan Transit Authority chalks up the sinkage mainly to poor soil conditions and the mishaps that come with any major construction project. But critics charge the MTA board, which includes Los Angeles Mayor Richard J. Riordan and the five-member county Board of Supervisors, with a lack of supervision—and backbone. "Oversight has been abysmal," says Assemblyman Richard Katz, chairman of the State Assembly's Transportation Committee. "The MTA is being run over by the contracting community."

> One builder allegedly used scrap wood instead of concrete to fill tunnel joints

Consider the case of Parsons-Dillingham, a joint-venture company that was managing construction on the Hollywood Boulevard tunnel. To satisfy federal regulators, MTA Chief Executive Franklin E. White ordered the company off the subway project last October. After intense lobbying efforts and threats of legal actions, however, Parsons-Dillingham scraped its way back. It still has about $30 million in contracts. Parsons-Dillingham says its stock was done "in accordance with industry standards." White says he is "gradually winding down" Parsons' contracts in order to save construction and legal expenses.

WHISTLE-BLOWERS. There have been plenty of other setbacks. In September, 1993, the MTA discovered that some portions of the tunnel were just six inches thick, half the design requirement. Shortly thereafter, foul smelling hydrogen sulfide leaking into tunnels required the installation of gas detectors and expensive improvements to the ventilation system. In a 1994 Hollywood Boulevard incident, an internal MTA probe found that scrap wood instead of concrete had been used to fill tunnel joints and that wooden, rather than steel, wedges had been employed for bracing the structure.

Now, even some high-level engineers are sniping at the project. In a May 19 letter obtained by BUSINESS WEEK and addressed to the inspector general of the Transportation Dept., Gary L. Buffington, manager of safety for Parsons-Dillingham, complains of "waste, fraud, and gross mismanagement" by the MTA and Parsons-Dillingham. Buffington charges that company supervisors ignored important safety precautions in order to speed up work.

The MTA insists that the subway system is safe. "Every time there's a new crack, it's a feeding frenzy," says White, a former New York state transportation commissioner. Moreover, White asserts that contractors are doing an adequate job. "The firms we have engaged are the preeminent construction and engineering firms in the world."

However, given continuing incidents such as the new sinkhole on Hollywood Boulevard, those arguments are increasingly hard to sustain. "That was more than just an unfortunate accident," says James Pott, an engineer and former head of the Rail Construction Corp. "We're just damn lucky no one was killed." Not something that Los Angeles riders want to be worrying about during their next run for a lunchtime pastrami sandwich.

By Eric Schine in Los Angeles

DAVID RUTOW-SABA

INVESTIGATIONS

SO THEY'VE FINALLY BAGGED BOB BRENNAN. OR HAVE THEY?

The New Jersey wheeler-dealer has sidestepped the feds before

Will securities regulators finally shut down Robert E. Brennan? After 16 years of fighting the penny-stock trader, Securities & Exchange Commission officials were jubilant last week. New York Federal District Court Judge Richard Owen ruled that Brennan and his firm, First Jersey Securities, had engaged in "massive and continuing fraud" in a case filed in 1985. "Brennan has done everything possible to postpone the day of reckoning," exulted Thomas C. Newkirk, associate director of the SEC's enforcement division. "But his day finally came."

Truly? For sure, it was the first time Brennan and First Jersey have been found liable for fraud, and the $71 million penalty is far higher than anything Brennan has been stung with in the past. The ruling also allows the SEC to press efforts to ban Brennan from the industry. And his legal troubles may be on the rise: A long-delayed New Jersey complaint alleging that his associates—and perhaps Brennan himself—manipulated stocks during the early 1990s likely will be filed soon.

"THREE STEPS AHEAD." But even as the noose looks to be tightening, few securities regulators believe Brennan is down for good. "Brennan is like the tax evader who continually finds loopholes in IRS rules," says Howard Sirota, a lawyer who spent years investigating Brennan for the National Association of Securities Dealers. "He's always three steps ahead."

Brennan once seemed the stuff of American entrepreneurial dreams. Starring in his own TV ads, he built First Jersey into a national firm. Later, he became a player in horse racing, while polishing his image with extensive charitable donations. Recently, he bid for New Jersey's Meadowlands sports complex and the Stanley Cup champion New Jersey Devils.

But according to Owen, the federal judge, Brennan built his fortune while simultaneously buying and selling overhyped stocks to unwitting retail customers. Typical was the trading in tiny Sovereign Chemical & Petroleum Products. In November, 1992, First Jersey sold customers units consisting of three Sovereign shares and one warrant for $3. Days later, First Jersey bought the units back for $3.50, split them, and sold the components to others for $8 total.

Regulators thought they had stopped Brennan in 1987, when he sold off First Jersey's retail operations. But First Jersey has continued to trade for Brennan's account—and according to the SEC and Owen, Brennan has very much remained in business. Owen ruled that Brennan appeared to have used First Jersey, his privately held investment company Austin Bernet, as well as his close links with brokerage firms F. N. Wolf, Hibbard Brown, and L. C. Wegard, to continue manipulating stocks. "Ultimately, we're looking at hundreds of millions of dollars" in excessive profits, claims Mark Reilly, acting chief of enforcement for the Massachusetts Securities D

First Jersey's lawyer, W. Hunt D mont, denies such allegations and sa Brennan will appeal his fine. In t meantime, the SEC has begun procee ings to revoke First Jersey's license a to bar Brennan from the securities bu ness. SEC investigators also will so dig through First Jersey's records search of further manipulation.

THE HOT SEAT GETS HOTTER

On top of a $71 million fine, Brennan could now face criminal charges and ouster from the business

That alone cou prove a gold mine. just the six compani examined by the cou the SEC estimated th illegal markups total $27 million. Yet reg lators think First Je sey underwrote a traded upwards of companies in that tim Moreover, Brenna signed a consent decr in 1984 enjoining hi from securities-law vi lations. So violatio could bring criminal contempt charges

For now, federal and state actio against Brennan all have concentrate on trades he is alleged to have orche trated at First Jersey before 1987. B state and federal securities regulato have amassed extensive evidence alle ing that he has since continued to m nipulate stocks. According to Owe Austin Bernet acquired 1.45 millio units of a company called Future Fun ing Corp. for roughly 11¢ a share early 1991. After changing the name t Site-Based Media, Austin Bernet sol the units through an intermediary t broker Hibbard Brown for $4. Bre nan's profit: $25 million.

SLOWING DOWN? Regulators allege th similar trading has occurred with othe companies Brennan has controlled i recent years—allegations Brennan vig orously contests. "He denied he co trolled any stocks that Hibbard wa marketing," says Dumont. "Any charg of manipulation or of excessive mark ups is denied."

So far, neither the SEC nor the state have acted against Brennan for the mor recent trades. That could change wit New Jersey's anticipated filing of stoc manipulation charges concerning Site an other shares. Sources close to the SEC be lieve New Jersey will name Brennan di rectly in the complaint. But for now, se curities police have moved simply to shu down Wolf, Hibbard and other broker that have spun out shares in companie Brennan allegedly controls.

Recent examples: The SEC audite trading records at several branches o

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Dickinson & Co., a Des Moines brokerage that has underwritten two companies with ties to Brennan (Dickinson officials deny any connection.) An SEC investigation of L. C. Wegard, where many former First Jersey and Hibbard brokers have moved, is also under way.

There are signs that all these investigations are finally slowing Brennan. With its investigation into trading of Chef's International, which has had ties to Brennan, in the works, the SEC has blocked registration of new shares. Over the past several years, the SEC has hindered attempts to register shares in several blind pools with heavy Brennan ownership. "We haven't seen much activity on new shares from Brennan for the last year," says Stanley Whitten, a recently retired SEC investigator. "Whether that means he's been slowed or he has found ne front companies, we don't know."

But few think the battle is ove "We're not even close to seeing the e of Brennan," says Newkirk. "But w are at the beginning of the end." Unfo tunately, it's hardly the first time th has been said of Brennan.

By Jane Sasseen in New York a Joseph Weber in Philadelphia

COMPUTERS

A PC WAR THAT'S NOT EXACTLY P.C.

Now, Compaq is hurling insults at Packard Bell

Compaq Computer Corp. tried everything. Lots of advertising, lawsuits, pleas to state attorneys general. All that, and its two-year-old push to move personal computers into the home remains bedeviled by Packard Bell Electronics Inc., a $3 billion rival. Now, no more nice-guy stuff: Compaq, it seems, has resorted to insults.

At a June trade show, Compaq Senior Vice-President Ross Cooley characterized Packard Bell as nothing but "some Mexican factories and four Chinese engineers," according to a wire-service report. Packard Bell Chief Executive Beny Alagem, an Israeli immigrant, demanded an apology from Compaq CEO Eckhard Pfeiffer. "Clearly, Compaq is feeling the heat," Alagem says. "But there is no excuse for its executives to make racial slurs." Cooley declined to comment.

BITTER FEUD Packard's Alagem (right) wants an apology from Compaq CEO Pfeiffer (left)

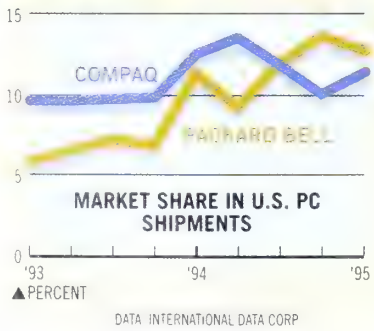
This little lovefest began on Apr. 10, when Compaq sued Packard Bell in Federal District Court in Wilmington, Del., charging it with false advertising. The suit came after Packard Bell PCs outshipped Compaq's for three straight quarters (chart). Compaq's gripe: Packard Bell wasn't telling consumers that some of its computers were made with used parts.

DAMAGE CONTROL. In fact, Packard Bell hadn't been entirely up front about its use of the parts. And within days, a score of copycat class-actions were filed against it. Then, in late April, Compaq blanketed state attorneys general with an eight-page letter urging them to "consider an investigation...to determine if firms such as Packard Bell are not honoring the legal distinction between used and new products." Twelve states, led by Florida, launched a joint probe in June.

Just then, Cooley opened his mouth. The Associated Press story reporting his trade-show comments also inferred that Compaq had studied Packard Bell's business model and had determined that its rival's profit margins were too thin to withstand the added costs of litigation. "Mr. Cooley has basically drafted Packard Bell's complaint for malicious prosecution with his own mouth," says attorney Marshall B. Grossman, who represents Packard Bell.

Compaq's damage-control specialists now are trying to clean up the mess. A spokesman says Cooley wasn't implying that the lawsuit was intended to force Packard Bell to raise prices by burdening it with legal costs. Rather, the spokesman says, Cooley meant that if Compaq wins its suit, Packard Bell likely would have to bring its manufacturing practices in line with Compaq's. That could "cause [Packard Bell] to raise prices at least 10%," says David Wu, PC analyst at S. G. Warburg & C

WHO'S IN THE FAST LANE



Packard Bell recertifies good comp nents from computers returned by cu tomers and uses them to build new cor puters. Other PC makers do the sam Indeed, there is a class-action suit pen ing against Dell Computer Corp. in Texas court alleging it failed to noti customers that used parts were include in its machines. Compaq uses only ne components, selling returned machines used in its factory store in Houston.

The distinction between new an used can be a fine one: Clothing ar other goods are commonly returned t mail-order houses and departmer stores, where they are put back on th shelves to be resold as new. computer processor that ha been used for several thou sand calculations is indistin guishable from one just o the shelf. Indeed, manufactur ers routinely "burn in" thei products by running them fo several hours to test them.

"NECK AND NECK." The Fed eral Trade Commission infor mally has asked several com puter makers, among ther Compaq and Packard Bell, for informa tion. Packard Bell is urging the FTC t escalate its inquiry into a formal rule making procedure "so that we have gov ernment review and sanction of th practice on an industrywide basis," say attorney Grossman.

So far, though, there's no evidenc that Compaq's verbal and legal broad side has slowed Packard Bell. "We thin that Packard Bell and Compaq will en up neck and neck for No. 1 this year, says Eric R. Lewis, PC analyst at Inter national Data Corp. Indeed, Packar Bell is just weeks away from shipping its new fall line—which should allow i to keep its lead in the market. One new feature: fine print to the effect that it computers may contain "serviceable used" parts. Compaq already is consid ering turning the admission into full page comparison ads. The battle, it seems, has a long way to go.

By Larry Armstrong in Los Angeles and Gary McWilliams in Houston

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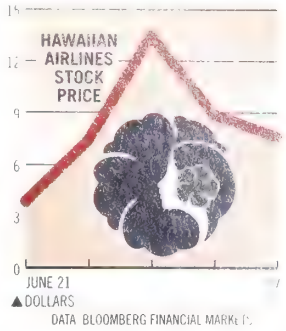
REICHMANN HEADS BACK TO THE WHARF

PAUL REICHMANN WANTS back in on London's Canary Wharf. The Canadian developer is part of a syndicate bidding for the development his family built in the late '80s, then lost in the 1992 bankruptcy of Reichmann's Olympia & York Developments. The bidders, led by CBS and Loews Chairman Laurence Tisch, would buy about 80% of the $1.1 billion in debt held by the 11 banks that own the complex. But Sir Peter Levene, chairman of the company that runs the development, says the owners aren't rushing to sell. Canary Wharf is 75% leased and London's property market is tight. At least four other groups are interested, Levene says.

CLOSING BELL

HAWAIIAN PUNCH

Hawaiian Airlines stock, grounded for 18 months during bankruptcy reorganization, began trading again on June 21. It has been a bumpy ride. Rumors soon surfaced that the airline would be bought by USAir. Says Hawaiian CEO Bruce Nobles: "I couldn't begin to tell you how that rumor got started. It made no sense." No matter: Hawaiian's stock went from less than $2 to $13.50. After denials from both carriers, shares have tumbled to $7.



PHOTOGRAPH BY SHONNA VALESKA

CLINTON LOSES A FED FIGHT

FACING FIERCE OPPOSITION from GOP senators, Alicia Munnell won't get a seat on the Federal Reserve Board. On June 28, President Clinton nominated the economist and Treasury official as the third member of his Council of Economic Advisers. That same day, he promoted CEA member Joseph Stiglitz to chairman. Conservative senators had attacked Munnell, 52, the leading candidate for the seat, for her studies on mortgage-lending bias and proposals to tax pension funds. "It became clear that it would be impossible for her to be confirmed," says an Administration official. Now, Munnell and Stiglitz had better hope the CEA survives GOP attempts to kill it.

THE BOTCHES OF ORANGE COUNTY

ORANGE COUNTY'S HOLE grows deeper. California's bankrupt poster child tried raising funds with a ½% sales tax hike. Voters rejected it on June 27. The debt market wasn't much kinder: Investors boycotted the county's $155 million bond issue backed by the Industrial Bank of Japan's letter of credit, forcing underwriter Goldman Sachs to increase the yield by half a percentage point. As a result, the county may have to default on $800 million in debt due this summer. Officials are trying to avert disaster by usurping tax revenues intended for its cities, schools, and special districts. But "there is not a hundred cents on the dollar [bankruptcy] solution from this day forward," said Paul Nussbaum, a top county adviser.

HEADLINER: SANFORD WEILL

TRAVELING LIGHT AT TRAVELERS

Sandy Weill is not a patient guy. In January, making it known he was displeased with Travelers' laggard group-health business, he merged it with Metropolitan Life's health unit. He vowed that the resulting company, MetraHealth, would become a national managed-care power. But it didn't happen fast enough: On June 27, MetraHealth was sold to HMO giant United HealthCare. Travelers will receive $816 million of the $1.65 billion price in cash, plus more in future payments.

With the deal, Weill exits the health business, leaving Travelers free to focus on its consumer finance, life insurance, and securities units. His goal: build a low-cost distribution network that can wholesale financial products to a broad range of consumers. Meanwhile, he keeps slashing costs with layoffs and targeted asset sales. He got rid of $1.5 billion in real estate last year, reducing Travelers' mortgage and real estate portfolio 60%. As a result, its insurance operation saw record operating earnings of $600 million. That's the work of a guy in a hurry.

By Tim Smart

MORE LAYOFFS AT LOCKHEED MARTIN

BACK IN AEROSPACE'S 1980S heyday, Lockheed and Martin Marietta had a total of 276,000 workers. Then the cold war ended, and the two giant contractors merged. Now, the combined company, called Lockheed Martin, is down to 170,000 employees and shrinking fast: On June 26, it announced plans to shed 19,000 jobs by 1999. Lockheed will take a second-quarter pretax charge of $525 million, but expects annual savings of $1.8 billion. With Congress expected to nick the Pentagon and NASA, further workforce cuts haven't been ruled out.

GE AND JUSTICE: A SETTLEMENT?

GE AIRCRAFT ENGINES MAY BE nearing daylight in its 18-month-old false claims litigation. The suit, brought by G engineer Ian Johnson an joined a year ago by th Justice Dept., alleges tha many of the company's er gines didn't meet contrac specifications because o faulty electrical bonding Now, the parties have tol the judge that they have a agreement in principle t settle the key charges, whic could be finalized at a July 1 hearing. The terms of th agreement are still unde discussion.

ET CETERA . . .

- *Pocahontas* did $30 millio its first weekend. It wasn' enough. Disney stock fell 5%
- Sallie Mae dissidents won of 14 available board seats, blow to management.
- Champion Intl. bought bac 10% of its stock from Loew and Berkshire Hathaway.
- Michael Jordan and Bug Bunny will team in a War ner animated film.

1994. CREDIT LYONNAIS in the U.S.
12th largest agent/co-agent bank*

* In 1994, Credit Lyonnais ranked 12th as agent/co-agent in global lending by full credit volume among all foreign and domestic commercial banks in the U.S. (Gold Sheets, Jan. 23, 1995)

ousehold Affinity CC aster Trust 1994-1 100,000,000 gent	**Pacific Refining Corp.** $105,000,000 Agent	**TCI-Cablevision of Sierra Vista** $130,000,000 Agent	**Source One Mortgage Services** $1,500,000,000 Co-Agent
BK Minerals 45,000,000 gent	**Weatherford International** $125,000,000 Agent	**ITT Financial** $4,000,000,000 Co-Agent	**Caterpillar Inc.** $1,800,000,000 Co-Agent
irfield Inns 75,000,000 gent	**First USA Bank** $150,000,000 Agent	**Fleet Financial Group** $1,000,000,000 Managing Agent	**CS First Boston Inc.** $1,250,000,000 Co-Agent
mart and Final 0,000,000 gent	**INTERCO Incorporated** $360,000,000 Co-Arranger	**Northrop Corporation** $2,800,000,000 Lead Manager	**K-Mart** $6,620,000,000 Co-Agent
ATZ Media 7,875,000 nderwriting Agent	**Countrywide Funding** $2,500,000,000 Co-Agent	**Federated Dept. Stores** $2,800,000,000 Co-Agent	**American Home Products** $10,000,000,000 Co-Agent
le-Communications, Inc. 90,000,000 anaging Agent	**Blockbuster Entertainment** $2,500,000,000 Co-Agent	**Case Equipment** $2,900,000,000 Co-Agent	**Kidder Peabody** $3,700,000,000 Co-Agent
mith Barney Shearson ,750,000,000 anaging Agent	**Chrysler Financial Corp.** $4,580,000,000 Co-Agent	**ITT Corp.** $3,000,000,000 Co-Agent	**Hanson America, Inc.** $4,500,000,000 Co-Agent
ine Webber ,000,000,000 anaging Agent	**LDDS** $3,410,000,000 Managing Agent	**Lehman Brothers** $2,500,000,000 Co-Agent	**News Corp.** $2,050,000,000 Co-Agent
eet Mortgage Group ,200,000,000 anaging Agent	**Electronic Data Systems** $1,800,000,000 Co-Arranger	**First Deposit National Bank** $87,875,000 Agent	**DLJ Mortgage Capital** $235,000,000 Agent
ung & Rubicam 25,000,000 -Agent	**Marvel Entertainment** $280,000,000 Co-Agent	**Interco Receivables Corp.** $150,000,000 Agent	**Time & Life Building** $200,000,000 Agent/Arranger
estinghouse Electric 250,000,000 -Agent	**HMC-Properties/Host Marriott** $230,000,000 Co-Agent	**Viacom Inc.** $6,800,000,000 Agent	**Alliance North American Government Income Trust** $250,000,000 Agent
ufman and Broad Home rp. 00,000,000 -Agent	**Cedar River Paper Co.** $507,000,000 Co-Agent	**McDonnell Douglas** $1,250,000,000 Co-Agent	**Foodmaker, Inc.** $52,500,000 Agent

UR COMMITMENT CONTINUES MORE THAN EVER IN 1995.

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EDITED BY OWEN ULLMANN

CAMPAIGN REFORM: MAYBE BILL AND NEWT HAD THEIR FINGERS CROSSED

It was the handshake that warmed the coldest hearts in New Hampshire. At their historic appearance on June 4, President Clinton and House Speaker Newt Gingrich pledged to create a bipartisan commission to break the political logjam blocking campaign and lobbying reform.

Well, so much for. Read our grip. That rare moment of conciliation is gone. Deadlock is back. Reformists in both parties say attempts to limit the corrupting influence of money in politics is unlikely this year. "The handshake has dissolved," laments Representative Charles T. Canady (R-Fla.).

PEROT FACTOR. Although his reaching out to Clinton was a spontaneous gesture, Gingrich has quickly realized that the idea of a blue-ribbon panel is a convenient delaying tactic that could push campaign reform past the 1996 election. And Clinton, who has never followed through on his pledge to overhaul campaign financing, seems unwilling to expend the political capital needed to pass major reform.

There's a simple reason why the issue is low on the Speaker's agenda. Since seizing Capitol Hill, the GOP has been raking in far more money from special interests than the Democrats. Last year, for example, Republicans demanded an end to political-action committees, but now that the money tide has turned, Gingrich sees no urgency. "There is zero [grassroots] pressure for campaign reform," he says.

But a flash storm of protest could take the Speaker by surprise. Ross Perot and his followers see the GOP leadership's reluctance to curb special-interest money as a sign that Republicans are no more committed to reform than the old Democratic majority. "It's like watching a person who's addicted to drugs or alcohol and can't admit he has a problem," snaps Lois Rozet, a United We Stand America activist. "If they don't deal with this issue, the public will rise up again."

SHAKE 'N' FAKE? *Smooth talking in New Hampshire*

That's no idle threat. Independents and Perot partisa supplied the margin for the GOP's takeover of Congress, ar their defection could cost Republicans dearly. Many new GO lawmakers believe voters won't credit the party for revol tionizing government if it stonewalls on political reform.

Still, Clinton unwittingly gave cover to Republicans wl would drag their feet: By agreeing to a study, he underc bashing of Gingrich and Senate Majority Leader Bob Dole (I Kan.) for resisting change. One reformer, Se ator Paul D. Wellstone (D-Minn.), derides tl commission as "a great leap sideways."

Meanwhile, GOP reformers are getting res less. Representative Linda Smith (R-Wash.), a thor of a ban on lobbyist gifts to lawmaker teamed up with the Perotnistas to back a refor package on June 26 after being rebuffed b House leaders. "I asked nice, I followed th rules, and they don't want to address it. Th only chance is if public pressure becomes grea enough," she says.

Perot may turn up the heat by flogging th issue at an upcoming United We Stand conver tion that most Presidential hopefuls will atten Hill insiders predict the GOP will respond b passing watered-down lobbying reform befor the election. The plan likely will curb gifts an require greater disclosure of lobbyists' expense

Yet even Perot isn't likely to prod the GOP int comprehensive campaign-finance legislation in this Congres Having proposed a balanced budget and slashed committe staffs, Republican leaders feel the party is inoculated against at tacks that it's a defender of business as usual. Their hope: to de lay real reform until 1997 when a GOP Congress and Presiden can rewrite laws to freeze their advantages. The risk is that th public will take reform more seriously than the leadership does—and vent its anger in the voting booth.

By Richard S. Dunham

CAPITAL WRAPUP

SILENT AL

▶ Does Senate Banking Committee Chairman Alfonse M. D'Amato have a Whitewater surprise up his sleeve or a flop on his hands? That's what Democrats are asking, because the New York Republican is suddenly silent on exactly when he will hold hearings. The normally talkative D'Amato, the leading GOP critic of the Clintons' financial dealings, will use the hearing to investigate White House handling of records in the office of the President's deputy counsel, Vincent Foster Jr., after his apparent suicide. D'Amato says only that hearings will start by the end of July.

GETTING OVER VIETNAM

▶ President Clinton, who dodged the Vietnam War, has put off formal ties with Hanoi, fearing a political backlash. His concerns may be unwarranted. Michigan pollster EPIC/MRA surveyed 1,000 voters nationwide and found that 50% favored restoring full diplomatic and trade ties with Vietnam. Only 32% opposed the move.

CHIRAC ATTACK

▶ Prickly U. S.-French relations show no sign of ebbing now that France has a new President. White House aides were miffed when Jacques Chirac upstaged President Clinton at the economic summit in Halifax by rallying leaders behind an expanded U.N. peacekeeping force in Bosnia. Chirac's *tête-à-têtes* with Clinton went over like a flat soufflé. "He has strong opinions," sniffs one top Clintonite. "But there isn't always the knowledge or thought underlying them."

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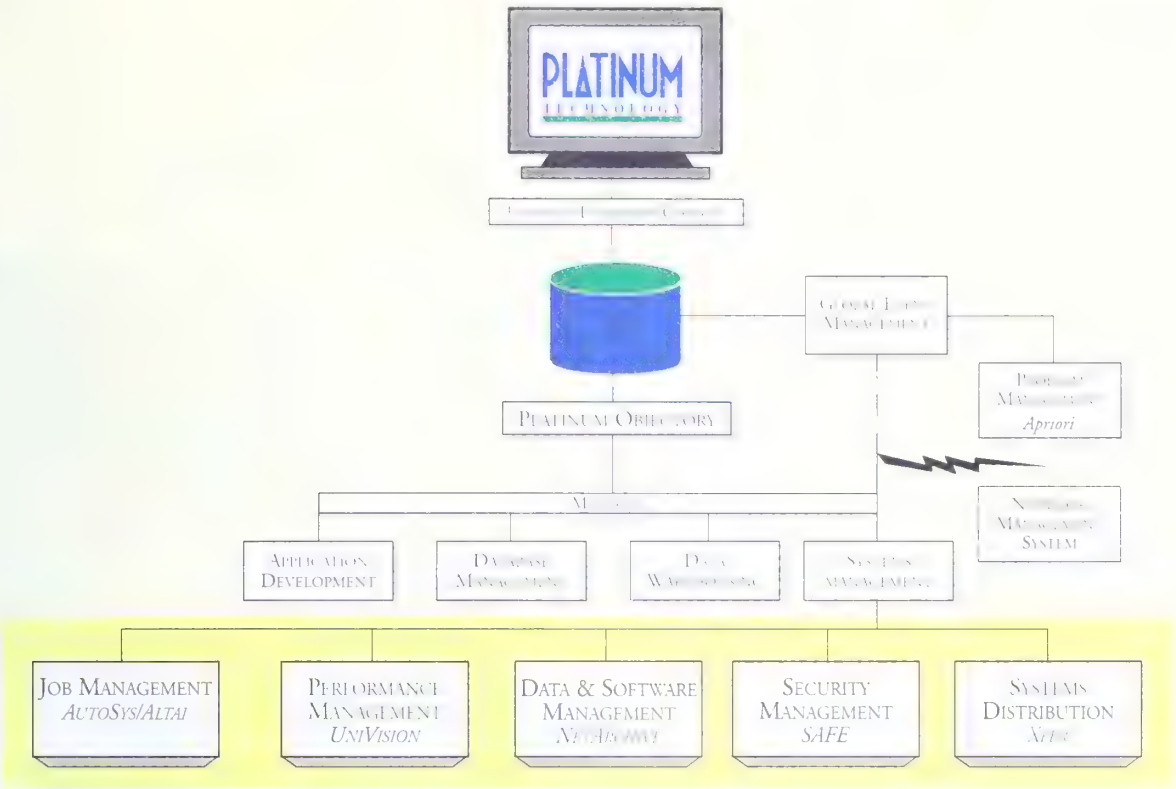

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JAPAN

AND NOW FOR THE REALLY BAD NEWS...

Japan is worse off than it looks: Its assets may be overvalued by an eye-popping $7.7 trillion

After four years of economic stagnation, Japan is on the brink of recession. Government rescue packages trundled out since 1993 haven't done the trick. Indeed, five years after the collapse of the bubble economy, share and land prices—the foundation of Japan's national wealth—are continuing to skid.

But look at government accounts or a corporate balance sheet, and you'll find scant evidence of this decline. Share prices, even after the 62% tumble of the Nikkei stock average since 1989, are still considered to be ridiculously high. Accounting gimmickry cloaks a huge hole in Japan's $595 billion corporate pension system. Other maneuvers allow the government to understate its debts by 6%. And with property prices still falling, the collateral banks are holding on an estimated $1 trillion in bad loans is probably worth nowhere near its value on lenders' books.

So what is Japan Inc. really worth? No one knows for sure—but it's a heck of a lot less than what it appears to be. According to a BUSINESS WEEK analysis of probable further declines in the property and stock markets, trouble with corporate pension funds, an understated budget deficit, and losses on foreign holdings, Japan's assets could be overvalued by a head-spinning $7.7 trillion.

To be sure, with more than $20 trillion in financial assets at home, including huge troves of corporate cash, and world-class fixed assets overseas, Japan has vast resources at its disposal. The trade deal with the U.S. on autos could give markets and the economy a boost by weakening the yen and shoring up profits. Nevertheless, the potential loss of even more national wealth in the post-bubble economy has frightening implications. Efforts to stimulate economic growth are unlikely to bear fruit if Japanese consumers and companies see their assets' value continue to dwindle.

Tokyo is trying anyway. Following word that Japan's economy grew at an alarming 0.3% annual rate in the first quarter, Prime Minister Tomiichi Murayama's fragile coalition on June 27 announced its third emergency spending package since April. In explaining the plan, Finance Minister Masayoshi Takemura conceded that Japan's fears of recession and bank failures have "come to the notice of the entire world."

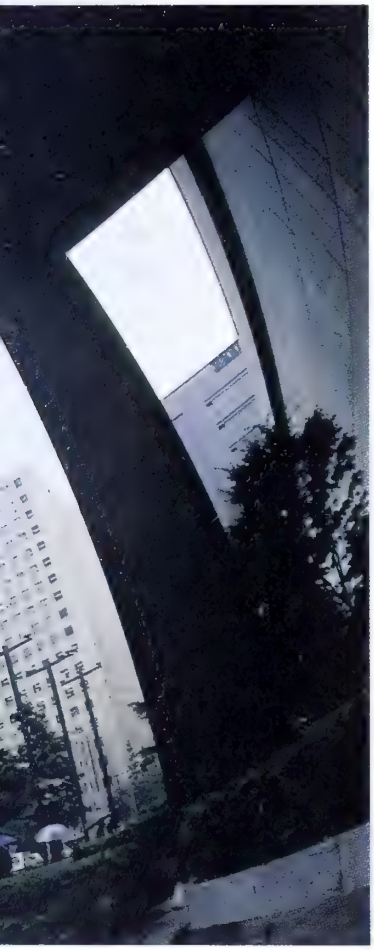
NO CHOICE. It's not hard to understand why. If Japanese life insurers and banks are forced to sell their vast bond holdings to raise cash, they could cause a global cascade effect by depressing prices and pushing up rates. Japanese investors dumped $35 billion worth of U.S. Treasury bonds alone in 1994.

The Japanese probably have no choice. Domestic commercial property prices have fallen at least 50% since 1991, vaporizing $15 trillion in national wealth—roughly three times Japan's annual economic output, figures Bernard Siman, a real estate analyst with UBS Securities Ltd. in Tokyo. No wonder jittery Japanese companies unloaded $6.6 billion worth of real estate last year. E&Y Kenneth Leventhal Real Estate Group estimates that an additional $10 billion worth could follow this year.

It's true that properties picked up in the 1950s are way undervalued, even

day's prices. But since Japanese s, life insurers, and corporations land holdings at their acquisition rather than at current values, it's n to gauge their true exposure in 's market. "I don't think there is ccurate valuation of prices here," Richard Mandel, a real estate bro- n Tokyo with U. S.-based Kennedy on International.

ere are some clues, however. Take it Cooperative Purchasing Co.), a vehicle set up in 1993 by 160 hese banks and insurers to buy up oans. Their idea was to get fore-



ANXIETY: *Commercial property s have fallen 50% since 1991, rizing $15 trillion. And the stock ket may continue to swoon*

d property off their books by trans- ng the rights to CCPC. Lenders get k break if the loans are written . But unless the banks and insurers find a third-party buyer for the held property, they will eventually to take it back.

the CCPC experiment has proved a Band-Aid. The company has as- d more than $100 billion in loans ed by property, at 55% of their nal face value. But it has been able sell only 2% of the loans. Siman reckons land prices will have to fall 20% further before CCPC can unload all that sour collateral. Even cheaper property values may not do the trick. "Nobody has the money to buy," says Lynn Pickard, a real estate attorney with Hideki Kojima, a Tokyo-based law firm.

Things hardly look better at the Tokyo Stock Exchange, where prices have tumbled 25% this year. That's on top of a decline of nearly $2 trillion in market capitalization for blue-chip stocks since the peak in 1989. With shares still fetching an average price-earnings ratio of 50 times estimated earnings for the fiscal year ending March, 1996, the Nikkei will have to shed 14% more before it's fairly valued, figures David Pike, an equity strategist for Barclays de Zoete Wedd. "Even [with the index around 12,000] we couldn't say stocks are unequivocally cheap," says Pike. "I'm worried the Nikkei will even go lower."

That would be bad news indeed. Thanks to Japan's system of interlocking shareholdings, banks and insurance companies own 25% to 30% of outstanding shares. These cross-shareholdings represent a hefty portion of the banks' and insurers' capital. As bad debts have mounted, banks have sold shares to cover write-downs. Banks have also sold shares bought decades ago, then immediately bought them back at today's prices, to strengthen their balance sheets. And life insurers, which issued policies promising a 4.5% return in the late 1980s, have also been dipping into their portfolios to make up the difference between that and the 2.5% return they're now getting on their investments. Yet if the Nikkei index falls much below 12,000, these hidden reserves could be wiped out.

Japan's Wealth Illusion

	OVERVALUATION
STOCKS Market capitalization of the Nikkei's first section is $3.2 trillion, about 14% above where it should be.	$448 billion
REAL ESTATE Property is worth about six times GDP, or $30 trillion. Prices probably have 20% more to fall.	$6 trillion
PENSION FUNDS If their assets of $595 billion were marked to market, corporate pension plans would be around 30% underfunded.	$178 billion
FEDERAL BUDGET The budget deficit is stated at $100 billion, or 2% of GDP. More realistically, it's 8%.	$300 billion
FOREIGN INVESTMENTS In the U.S. alone, assets are fetching half of their acquisition prices in the 1980s, yielding $200 billion in losses. Exchange losses on U.S. Treasuries: $585 billion.	$785 billion
TOTAL OVERVALUATION	$7.7 trillion

DATA: UBS SECURITIES LTD., MERRILL LYNCH & CO., E&Y KENNETH LEVENTHAL, BUSINESS WEEK

FILL THE GAP. Falling asset prices are also putting pressure on pension plans. On paper, Japan has $595 billion in corporate pension assets. But they are valued at their acquisition cost. If stock holdings and land holdings were marked to market, plans would be underfunded by as much as 30%, says Yoshio Takizawa, managing director of Moody's Japan. Add to that Japan's aging salaried workforce, and you have a crisis brewing. It would be up to companies and employees to fill the $178 billion gap—unless Tokyo steps in.

The federal debt load would make that tough. On paper, the budget deficit is a modest 2% of gross domestic product. It's closer to 8% if you throw in off-budget borrowing for public works and exclude the $100 billion in annual social-security contributions from taxpayers needed to keep Japan's pension system solvent. Those contributions are now recorded as government revenues—even though they can't be used for public spending. Lehman Brothers Inc. economist Andrew Shipley expects Japan's outstanding government debt-to-GDP ratio to hit 82.6% this year, vs. 64% in the U. S.

Japan, of course, isn't the only country that plays games with its accounting. But the $7.7 trillion difference between reality and what's on the books has to be addressed before confidence is restored. Policymakers may keep flinging new spending packages into the system. If the national wealth keeps draining, however, those drops may do little to fill the bucket.

By Brian Bremner in Tokyo

BROADER SCOPE: *Samsung wants to diversify from consumer electronics*

SOUTH KOREA

LOOK OUT, WORLD—SAMSUNG IS COMING

Can it make the top tier of global electronics companies?

At a trade show in Yokohama in late April, Samsung Electronics Co. surprised Japanese and U.S. participants with a broad range of new computer screens. These included thin-film-transistor liquid-crystal-display (TFT-LCD) screens in Samsung-branded laptop computers. "Everyone was clambering over their booth," says David Andrews, chief executive of Interlingua Inc. in Redondo Beach, Calif. "Samsung was obviously telegraphing its intention to be a big player in this industry."

Samsung Electronics is also on the move back home. In early June, Chief Executive Kim Kwang-Ho announced he was cutting retail prices of consumer-electronics products and home appliances up to 16%. Samsung's bold grab for market share, at an estimated $100 million cost, will spur demand of sophisticated products such as large-screen TVs. South Koreans, with a per capita income close to $10,000 a year, are hungry for new products.

Having taken the world by storm with its 4-megabit dynamic random-access memory (DRAM) chips in 1994, Samsung Electronics, a unit of the $62 billion Samsung group, is ready to leap to the next level of competitiveness in the global high-tech wars. In a strategy melding heavy investment, alliances, and acquisitions, it aims to dominate markets for multimedia gear, cellular phones, and personal digital assistants. Cash won't be a problem: Its position as the world's largest DRAM producer is expected to help generate net profits of $2.3 billion this year on sales of $19.3 billion.

Samsung Electronics' ultimate goa is to become one of the world's top fiv electronics companies, with annual sale of $50 billion by 2000. By then, execu tives say, Samsung will derive 40% its sales from semiconductors and 40 more from new multimedia products LCDs, and telecommunications gear. Sig nificantly, it hopes to cut its dependenc on consumer electronics from 45% toda to 20% by the decade's end.

BAD HABIT. To get there, CEO Kim mus diversify fast. "We are too dependen on memory chips for our profits, an this is not a healthy thing," he says i an interview in Samsung's headquarter overlooking Seoul's historic Yi Dynast South Gate. After spending most of hi career in the company's semiconducto division, he was named vice-chairma and CEO in December, 1994.

For Kim, 55, it's an auspicious mo ment. The strong yen is creating a opening for Korean companies to under cut Japanese prices. Surprisingly, Japa nese companies such as Toshiba, Fujitsu and NEC are sharing technologies wit Samsung Electronics because it ha something to offer in return, including steady supply of competitively price memory chips. Most analysts agree tha Samsung will stay ahead of the Japa

e in the next-generation 16-megabit MS, whose sales are expected to take n 1996.

he chip strategy does not end there. nsung already has put up $2.5 bil- in capital spending for the 64-mega- DRAM generation, which will come narket by 1998. That should ensure a inuing lead on the Japanese, says ng Eui-Ju, a senior analyst for Ssan- ng Investment & Securities Co. He mates that Samsung will control as h as 20% of the world market for negabit chips. It's also producing ples of the newest generation, the megabit DRAM.

GONBALLS. But to make transition from kingpin in nory chips to broad-based nology giant, Samsung has e to a bitter conclusion: eans lack the knowhow to lop their own frontline tech- gy. So Samsung will rely on tegic alliances with, and ac- itions of, mainly U.S. and nese companies to get most hat it needs (table). "With- alliances, Samsung cannot eve its goals," Kim says.

ince May, 1994, Samsung set up eight alliances. They de an agreement with Gen- Instrument Corp. for the lopment and sales of digital vision, a deal with AT&T for dwriting-recognition person- omputers, and an accord Fujitsu Ltd. to share tech- gy in the next generation FT-LCDs. Most recently, in , it signed an agreement Motorola Inc. to develop next-generation personal al assistants based on company's DragonBall mi- rocessor.

amsung also has acquired aken equity positions in six panies in the last year. It ired 51% of LUX, a Japa- consumer electronics com- , and 40.25% equity in AST earch Inc., based in Irvine, f. The acquisitions will help Sam- g overcome weaknesses in audio lucts and personal computers. De- having the largest market share in ea, Samsung has had troubles under- ding the U.S. desktop market. "We help them," says AST Chairman Safi eshey, whose company will be as- d DRAMs and LCD screens.

amsung's biggest challenges will be elecom and the next generation of mation and video technology, says Kun-Chung, an executive managing ctor. "We plan to spend about $600 on in research and development in the next few years," he says. This money will support Samsung's costs of adapting such foreign technology as video-signal processing. Thanks to deals with U.S. companies, Samsung is developing a pilot project for Korea Telecom, which plans to introduce video-on-demand in November in Korea.

But that $600 million is just the beginning. By 1997, Samsung will have spent $7.8 billion on semiconductor development and $2.6 billion on multimedia and telecommunications products. Over the next two years, Samsung also is expected to commit $1.25 billion in capital spending on TFT-LCDs, in which it should start earning profits in 1999, says one analyst.

Samsung already has begun production of 10.4-inch color active-matrix TFT screens. Although not as big as some Japanese-made panels, the screen is among the most difficult to manufacture. Samsung's speed in establishing production of the screens should allow it to survive a shakeout—and price declines—caused by massive Japanese investments in the same area.

What drives Samsung, as it does all Koreans, is an obsession with beating Japan. CEO Kim has been involved in that battle for most of his career. In 1978, the Japanese tried to push Samsung out of the market for integrated circuits used in watches. Kim, then in charge of the integrated-circuits division, slashed prices and eventually emerged the winner in a battle for market domination. In 1984, when Samsung began production of the 256-kilobit DRAM chips, the Japanese tried to force Samsung out of the market. Kim, by that time a director in charge of production, beat the Japanese again.

But it will take more than just a burning desire to overtake Japan. Samsung is attempting a change from stay-at-home to global technology giant. Japanese companies such as Sony Corp. or Hitachi Ltd. have been doing so for at least a decade. As a result, some analysts worry about the foundations of Samsung's high-tech push.

GLOBAL PUSH. Even Kim agrees that the company's lack of efficiency in operations is more of a threat than price competition from the Japanese. "We must change our internal process, cut delivery time, reduce overhead costs, and innovate all processes," says Kim, who has hired the U.S. consulting firm Ernst & Young to help him.

At the same time, Samsung wants to raise its share of offshore production to 40% by 2000, from the current 7%. Rather than spreading smaller plants all over the world, Kim wants to set up massive plants in key locations—Winyard in Britain, Tijuana in Mexico, and near Shanghai in China. "We plan to convert these plants into local corporations with little interference from Seoul," says Kim. In China alone, the Samsung group plans to invest $4 billion over the next several years, mostly in electronics.

While Samsung plans for overseas expansion, it must improve its brand recognition and product quality. Samsung's consumer products are now at least 10% cheaper than those of such top brands as Sony. The price differential is sometimes as high as 30%, cutting deeply into profitability. Clearly, Samsung faces major challenges on nearly every front. But its impressive high-tech successes are rapidly making believers out of the toughest skeptics.

By Laxmi Nakarmi in Seoul, with Kevin Kelly in Chicago and Larry Armstrong in Los Angeles

Samsung's Alliances Are Providing Technology...

PARTNER	PRODUCTS/TECHNOLOGY
GENERAL INSTRUMENT	Digital television
USA VIDEO	Set-top boxes, including video file servers
NEC	256-megabit DRAM chips
ISD	Multilevel storage sound processing ICs
TOSHIBA	64-megabit flash memory chips
FUJITSU	TFT liquid-crystal displays
AT&T	Pen-based computers
MOTOROLA	Personal digital assistants

...As Are Its Acquisitions

ARRAY (U.S., 20% STAKE)	Digital processor chip technology used in multimedia products
HARRIS MICROWAVE SEMICONDUCTORS (U.S., 100%)	Optical semiconductors and gallium arsenide chips
LUX (JAPAN, 51%)	CAD/CAM software
INTEGRATED TELECOM TECHNOLOGIES (U.S., 100%)	ATM technology
AST RESEARCH (U.S., 40.25%)	Personal computers

DATA: SAMSUNG ELECTRONICS

BRITAIN

ARE THE TORIES COMMITTING SUICIDE?

Their fracas could end up costing them the government

It's Dec. 31, 1998, and British Prime Minister Tony Blair dons his dinner jacket on his way to New Year's Eve festivities. But first he has an announcement to make to the press horde outside 10 Downing St. A dozen European countries are going to adopt a single European currency the next day, and Blair has reluctantly decided to throw in Britain's lot with them. To hang back would be to condemn the island nation to Europe's sidelines, he reasons.

This is the scenario that's giving Conservative members of Parliament nightmares. An outspoken few dread losing sovereignty to overbearing European bureaucrats in Brussels. Many others worry that they will never overcome Labor's 40% lead in the polls under Prime Minister John Major's uninspiring leadership.

Knowing that all the sniping, from Euroskeptics and others, was undermining him, Major decided to smoke out the dissidents by resigning on June 22 as party leader. The Tories will decide the bland ex-banker's fate on July 4.

REDWOOD: *A decent showing in the vote could topple Major*

Major's strategy was to show that the loud critics were just a small faction. But he may instead have hastened his own demise. That's because there are far more doubters of his leadership than there are Euroskeptics. So what was an irritating but minor matter of party disloyalty has thrown the country's leadership up for grabs. A Tory other than Major could emerge as the new party leader, and thus Prime Minister. Or the country could face a snap general election, which just might sweep in a Labor government.

Major's only declared challenger is former Cabinet member John Redwood, 44, part of a boisterous but small group of hard-line rightists whose high priestess is Margaret Thatcher. Redwood once ran Thatcher's policy unit at 10 Downing St., and he may be even more radical than his mentor. A "family values" politician with echoes of America's Christian Right, he opposes abortion and denigrates single mothers on welfare—issues Thatcher never touched. He's a fan of U. S. House Speaker Newt Gingrich. But his anti-Europe views, including a vow never to join a single currency, place him more in the isolationist America First camp of Patrick J. Buchanan. "We must not be ashamed of being Conservatives," said Redwood at his press conference debut.

MAJOR: *Hoping to quiet dissidents, he may have speeded his own demise*

WISHY-WASHY. He has a point. While Major's centrist approach has up to now allowed him to preserve a working relationship with all but the most extreme anti-Europe MPs of his party, to Britain's voters he comes across as wishy-washy. "I certainly wouldn't vote Conservativ with John Major in power," says consu tant Daniel J. Day-Robinson, 35, as h rode the 7:30 p.m. train to his suburba south London home. "He has never tak en a stand on anything."

PORTILLO: *His hard-line Thatcherism scares moderates*

While it is too soon to tell how th midsummer madness at Westminster going to settle out, it doesn't look goo for Major, future European cooperatio or even the British economy. London markets, worried about a tax or interes rate cut to woo voters, have signale their unhappiness by pushing dow stock and bond prices and the value o the pound against the world's majo currencies.

Redwood's chances of winning out right on July 4 are slim, but he has enough heft to draw away 80 to 100 of the 329 votes, either for himself or in abstention. That would probably be sufficiently humiliating to force Major to withdraw.

HESELTINE: *He may jump into the second round if Major exits*

If Major, 52, is pushed out, others likely to jump in for the second round on July 11 include Trade and Industry Secretary Michael Heseltine, 62, and the Thatcherite and Euroskeptic Employment Secretary Michael D. Portillo, 42, who is better known The two Michaels are certain to polarize the party between its left and right wings. In fact, just the possibility of a win by Europhile Heseltine is bringing some wayward sheep back to the Major fold. That means Major could win by default.

It would be a hollow victory. Voters are disgruntled with all the party in fighting. And Labor's Blair is likely to be the biggest beneficiary.

Under fire, the harried Major is promising that the good times will return. At the recent European summit in Cannes, he told a camera-toting media scrum: "We're onstream to double living standards over the next 20 years." But voters, disgusted by a stream of scandals and policy reversals, are unlikely to be convinced.

By Paula Dwyer, with Heidi Dawley, in London, and with Bill Javetski in Cannes

SLOW RECOVERY: *Agnelli's serious illness was complicated by a fall*

LY

FTER GIANNI, HERE ARE MOSTLY QUESTIONS

o will succeed him at Fiat? What role will the family play?

alian political and business leaders re wondering how much longer ianni Agnelli can run Fiat. Agnelli, chairman of the Italian auto giant patriarch of Europe's richest indus- dynasty, had an abdominal aneur- removed at New York Hospital on 25. His recovery is said to be slow uncertain. Agnelli tried to kill the ors of his retirement in early June ng a television interview. "I will re- n," said a somewhat frail-looking Ag- , "as long as I'm necessary."

ut signs increase that the three- ades-long Agnelli era may be draw- to a close, and that major changes ensue at Fiat. Days after the TV rview, Agnelli slipped and injured spine while yachting. He missed the e 22 annual meeting of IFI, the fam- holding company that controls 30% of . Cesare Romiti, meanwhile, Agnel- 72-year-old chief ally and the hands- managing director of Fiat since 1976, t devote more and more time to de- ding himself from a judicial inquiry illegal slush funds allegedly man- d from his office.

iat officials claim not to be worried. e succession to Agnelli and Romiti is n, but it's not a problem for now," rts Ernesto Auci, the head of Fiat's ss office. Not everyone agrees. "My ression is that we will see changes at the top of Fiat sooner than later," says a source close to the Agnelli family. One person mentioned as a possible successor is Paolo Cantarella, head of the prospering car division.

Should Agnelli and Romiti step down in the next year, at least they will be leaving Fiat much stronger than it has been in years. Powered by the competitive edge of a devalued lira as well as popular new car models, Fiat turned a $1.1 billion loss in 1993—its worst ever—into a $612 million profit on $39 billion in sales last year.

Income from the family fortune is divvied up among more than 300 descendants of Fiat founder Agnelli

MANY SHARES. Even if a possible succession goes smoothly, the Agnelli clan may still want to raise more money from its Fiat holdings, a desire that could dictate Fiat's future shape. Income from the family fortune gets divvied up among more than 300 descendants of Giovanni Agnelli, who founded the company in 1899. It's a far-flung bunch. A granddaughter, Susanna, is Italy's Foreign Minister. A great-granddaughter has an olive oil business in the south of Italy, while another family member raises terriers in rural Georgia. Egon von Furstenberg, the New York fashion designer, is a great-grandchild.

While probably no member of the extended Agnelli family is about to go on the dole, there is rising pressure, insiders say, for better returns from Fiat and other family holdings. To help address those needs, IFI's dividend was raised more than 60% on June 22, to 340 lira per share. While IFI's preferred stock trades on the Milan bourse, the clan holds 100% of the common, and bylaws make sales to outsiders difficult. IFI says while its stock in other companies may go, no change is planned for the Fiat stake. "But the problem, that more and more family members need cash, is still there," says a Milan banker close to the family. So some sort of push by the family to sell a chunk of Fiat is possible.

Others may want more out of their Fiat shares, too. France's Alcatel Alsthom, Germany's Deutsche Bank, and Italy's Assicurazioni Generali and Mediobanca together control 10% of Fiat's capital. They may not be patient investors anymore. Pierre Suard, the Alcatel chief and Fiat board member, was forced from office by a series of scandals. His successor, Serge Tchuruk, may not be as committed as he was to holding Alcatel's 2.2% Fiat position, especially since Alcatel's profits are suffering. Deutsche Bank—slowly moving away from industrial participations as it concentrates on banking—is said to be looking at ways to increase the value of its 2.5% stake in Fiat. One option could be to dust off proposals to merge Fiat's car division with another European manufacturer. Deutsche Bank will not comment on plans for its shareholdings.

The Agnellis will still wield plenty of power at Fiat, even if the family dilutes its stake or if group units are spun off. Giovanni Alberto Agnelli, the 31-year-old nephew of Gianni—known as Gianni Jr. in Italy—has been quietly groomed to play a leading role at Fiat. The Brown University graduate has steadily moved up the ranks of the $1.1 billion family-held Piaggio motor-scooter group and was recently named chairman. He was named to the Fiat board at the end of 1993 and on June 3 became the first of the fourth generation to make it to the board of the family holding company. The Agnelli saga will continue, even after Gianni takes his final bow.

By John Rossant in Milan

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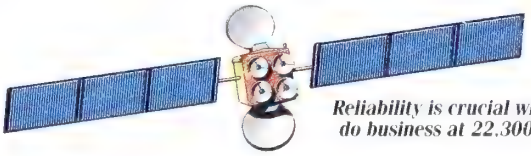

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TED BY STANLEY REED

SRAEL: WHY RABIN IS RUSHING O GET A PEACE DEAL DONE

Israel, skepticism about the Middle East peace process is unning high. Israeli settlers on the West Bank are defiant- expanding their outposts. The public is very uneasy ut a possible deal with Syria. So why is Israeli Prime Min- r Yitzhak Rabin in such a hurry to give Palestine Liber- n Organization leader Yassir Arafat power over West k towns? And why is Rabin's Foreign Minister, Shimon es, so assiduously courting the Syrians, even holding out once unspeakable possibility of a full Israeli withdrawal n the Golan Heights?

he answer is that the aging Labor lers have staked their careers on pping up peace with the Arabs. their time is running out. With eli elections looming in October, 6, the deal window is closing fast. consensus is that the peace pro- will essentially be frozen after t spring.

K. What's more, the coming politi- season promises to be wild and redictable. Both Rabin and Likud ty leader Benjamin Netanyahu face lenges within their parties. Israel's litional political groupings are frag- nting, with narrow interest-based movements and par- making inroads. In the past, small religious parties often lded the balance of power. Now, they will be joined by untried political groups. The Israeli political scene "is go- to be more complex than at any time in its history," s Tel Aviv University political scientist Chanan Cristal.

laking it all the harder for Rabin is the flak he's getting n within his own party. Recently, a large group of disgrun- Labor supporters opposed to Rabin's negotiations with PLO and the Syrians formed a movement called the Third y. Labor ranks were already weakened last year when the ng star Haim Ramon resigned as Health Minister and took control of the Histadrut trade union as an independent. Rabin is wooing Ramon, fearing that he'll start a new party.

Rabin could also be hurt by the actions of Natan Sharansky, the former Soviet human-rights activist. He just formed a new political movement aimed at improving the lot of 600,000 immigrants from the former Soviet Union. Those voters were key in Labor's stunning electoral success in national elections in 1992. But many are now increasingly disenchanted with poor housing and an inefficient labor market and perceived discrimination.

DEFIANCE: *Settlers expand their outposts*

Rabin's cause would seem hopeless were it not for similar problems that beset his Likud rival, the telegenic Netanyahu. Opinion polls had shown Netanyahu far ahead of Rabin. But in late June, Netanyahu's biggest rival in the Likud, Moroccan-born David Levy, announced he was breaking away to form a new party. Levy, a hero to North African Jews, could take as many as 15% of Likud's voters with him. His entry has also given Rabin a slight lead in the polls.

Even though Rabin's chances to stay on as Prime Minister after 1996 have improved, he could well end up leading a split government. When Israelis go to the polls late next year, they will for the first time be casting ballots for Prime Minister—not just for parties. That opens up the possibility of the elections producing a Prime Minister from one major party and a parliamentary coalition led by the other. It is hard to imagine a better recipe for gridlock.

So Israeli politics will be the wild card in the peace process. There is a big opportunity now because Rabin badly wants to wrap things up with the Syrians and the PLO. But unless major progress comes soon, peace will probably have to wait.

By John Rossant and Neal Sandler in Jerusalem

GLOBAL WRAPUP

ATAR COUP

Crown Prince Hamad bin Khalifa -Thani's overthrow of his father as ler of Qatar will likely speed devel- ment of Qatar's tremendous gas serves. Qatar has been criticized r moving too slowly under the revious ruler. Talks will likely con- nue with the Israelis on a major s deal that is being pushed by nron Corp.

In addition, Sheikh Hamad, who as already largely in charge of atar's affairs, will likely pursue an independent-minded course that could create some friction with his Saudi neighbors. For instance, Sheikh Hamad is likely to work to improve Qatar's already friendly relations with the Saudis' rivals, Iraq and Iran, according to Mohammed Abduljabbar, senior economist at Petroleum Finance Co., a Washington-based consulting firm.

TAIWAN INVESTMENT GROWS

▶ An effort to attract more foreign investment to Taiwan is showing signs of success. For the first five months of this year, Taiwan reported $832.9 million in new investment, 82% more than during the same period last year. U. S. investors led the pack with $257.2 million, triple the amount invested a year earlier. But foreign executives say that those numbers would be much bigger were it not for such hassles as high taxes, summer power shortages, and trade restrictions with China. There will have to be improvement in these areas if Taiwan is to take full advantage of worries about China's takeover of Hong Kong in 1997.

DYNASTIES

THE DARTS: FEAR, LOATHING, AND FOAM CUPS

Family lawsuits, renounced citizenships, an armored yacht: Oh, what billions can buy

Just before midnight on Sept. 9, 1993, a new home belonging to the secretive billionaire Kenneth B. Dart was doused with diesel fuel and set ablaze. No one was hurt; the house was not yet occupied. But the $1 million structure in Sarasota, Fla., burned to the ground.

Who did it? Sources say Ken Dart gave authorities a couple of possibilities.

Maybe it was Brazilian bankers. They were enraged because Dart, who owned 4% of that nation's foreign-held debt, was trying single-handedly to scuttle a $35 billion debt restructuring.

Maybe it was Thomas J. Dart, Ken's older brother, who believes Ken cheated him when the family trust was restructured. He has sued to regain what he says is his share of the family billions.

Or maybe it was just some neighborhood kids making mischief.

TAX REFUGEES. The crime has not been solved. Tom Dart denies any role, and Brazilian banking authorities declined to comment. But the arson spurred Ken Dart to take a step he had been mulling for some time. Three months later, Ken, now 40, and his younger brother, Robert, 37, renounced their U.S. citizenship, State Dept. records show. Their new mother country is Belize—though neither lives there—and both have obtained Irish citizenship, too. Ken lives in a guarded compound in the Cayman Islands, while Bob lives in London. The brothers' move, several sources say, really had more to do with tax avoidance than security. Expatriating with them? Not their parents, wives, or children, but their tax attorney, Richard J. Rastall.

The Darts' expatriation was but the most dramatic step in an odyssey that has taken the enigmatic clan from Mason, Mich. (pop. 6,768), to the exotic worlds of international finance and Caribbean tax refugees. Although few have heard of the Dart brothers or their father, William A., BUSINESS WEEK conservatively estimates their fortune at $4.4 billion. While the Darts dispute this figure, it would place them among the world's wealthiest families. Over the past decade, Ken Dart multiplied the family's already substantial assets through investments so savvy they suggest he may become one of the world's most successful financiers. The Darts are the second-largest shareholders of Salomon Inc. and once owned 11% of the Federal Home Loan Mortgage Corp. Though Ken Dart failed to block the Brazil debt restructuring, which cut the value of the family's $1.4 billion stake by about 30%, Dart still makes plays in such emerging markets, traders speculate, as Poland and Ecuador.

The Darts, say several sources, feel overwhelmed by what they regard as intense public and government scrutiny of their lives and financial affairs. Ken and Bob declined comment for this article. But the shroud of secrecy around their dealings has parted recently, as lawsuits filed by three members of the family against other members shed light on the Darts' wealth and ways.

BLACK SHEEP: *Eldest brother Tom sued his father and brothers. He says they cheated him by undervaluing Dart Container*

That wealth began with the prosaic plastic cup: Dart Container Corp. is the world's largest manufacturer of foam cups, a dull but intensely profitable business. Dart has 13 plants and between 3,000 and 4,000 employees worldwide, and industry sources say that its U.S. market share exceeds 50%. Based on figures provided by Tom Dart and a Coopers & Lybrand appraisal performed for him, Dart Container has annual revenues of about $1.2 billion and a gross profit margin of 26%. A spokeswoman says revenues are much lower but wouldn't provide a specific figure. Ragen MacKenzie Inc. analyst Daniel F. Nelson, who follows Dart Container rival James River Corp., says that if Dart

BREAKUP TIME: *Did Bob file for divorce from wife Katina in London to avoid U.S. divorce law?*

e a public company, it would prob- be valued at an earnings multiple 5, or $2.63 billion, a figure the Dart eswoman disputes.

ike all the family's undertakings, Container is swathed in secrecy. In ate 1950s, William A. Dart and his er, William F. Dart, a small-time ufacturer, developed a machine that l cheaply mold expandable polysty- beads into cups. They never pat- d their invention—that would mean aling how it works—and ever since kept outsiders and even most em- ees from seeing the machines.

art Container's two-story headquar- features mirrored windows and a barbed-wire fence. The company t even join the Mason Area Chamber ommerce. "We don't know what's go- on out there, either," says the Cham- executive director, Joe Watkins.

ING RIVALRY. When the boys were ng, the Darts lived in a modest h house within sight of the plant. nspeople say they were low-key and markable. The boys attended the versity of Michigan, but only Ken uated. The rancor that would di- the family developed after Tom ted working for the company. He me enamored of the then-booming nd natural-gas business and wanted phon off much of Dart Container's ss cash into Dart Energy Corp., which he founded. But after Ken earned his chemical-engineering degree and joined the company, he vehemently opposed the oil and gas venture.

By 1986, the youngest, Bob, took Ken's side. The family restructured a trust, set up by William F. Dart, that divided assets equally among the brothers. Under the new agreement, Tom's trust received Dart Energy plus a $55 million payment to make up for the greater value of Dart Container, now owned by the trusts of Ken and Bob.

Tom later became convinced that his father, who controls the trusts, and his brothers had wildly undervalued Dart Container. He sued, and the case is winding through the Michigan courts. Tom's estranged 17-year-old son has also sued for his share of the family assets. Tom's biggest fears, though, are that his father and brothers are borrowing against Dart Container's U. S.-based assets and transferring the cash offshore—charges the Dart spokeswoman denies—and that his father will expatriate also. Then, even if Tom wins his case, "it's going to be a game of 'Find the Assets,'" he says.

The 1986 trust restructuring enabled Ken Dart to begin playing the stock market with Dart Container's rich profits, and the budding financier's investments proved even more profitable than foam cups. The few investments Ken has made that triggered mandatory public filings with the Securities & Exchange Commission reveal a remarkable record of triple-digit returns (table).

G. Bruce Papesh, a Lansing (Mich.) stockbroker who has done business with the Darts for years, says Ken has a gift. Says Papesh: "How do you describe genius? He certainly has the capability [to be the next] Warren Buffett." By several accounts, Dart makes most trading decisions himself, though he employs financial analysts and number-crunchers at his base on Grand Cayman. He also relies on Paul Masco, Salomon's head emerging-markets trader, for advice. Masco declined to comment.

From interviews with relatives, competitors, former employees, and others who know Ken Dart, a picture emerges of a driven loner. He lives in self-imposed exile, traveling the world in his private jet or aboard a 220-foot yacht named after his mother, Claire. His wife, Janice, and their three daughters live in Sarasota. So do William and Claire Dart, now retired.

In April, 1994, local records show, Ken Dart bought a small Grand Cayman resort, the West Indian Club, for $5.3 million to use as his primary residence

ICHES An estimated 4 billion fortune makes Darts one of the ld's richest families

SEEKING SHELTER: *Ken Dart (bottom right), the family's financial driving force, resides at his guarded compound in the Cayman Islands. His wife, Janice, and their three daughters live in Sarasota, Fla. Parents William and Claire Dart, live in Sarasota, too. (Photos were taken in the late 1980s and were provided by Tom Dart)*

and as a compound for the extended family. Before that, says Tom, Ken had considered living on his yacht, which he had armored to withstand torpedo fire. Tom's take on his brother's reasoning: If the yacht never left international waters, Ken would be a stateless investor. Ken Dart won't comment.

By expatriating, Ken and Bob avoided hundreds of millions of dollars in income taxes on distributions Tom says they later took from their trusts. They also avoided capital-gains taxes on their investments. But both still own homes in the U.S. and benefit from federal contracts awarded to the family business. Although a Dart spokeswoman says that from 1992 through 1994 the company did $4.5 million worth of business with the General Services Administration, GSA records show that Dart Container won contracts worth $181 million in that period. "They're essentially having it both ways, and that's not fair," says Representative Sander M. Levin (D-Mich.), who has worked to close a tax code loophole that lets rich Americans expatriate and escape tax bills.

Although sources say Ken is devoted to his family, he's apparently willing to forgo their company to elude the taxman. "I've dealt with a lot of wealthy people, and there are two kinds," says a former Dart executive. "One kind just likes to win but isn't really trying to destroy the competition. Ken Dart is the other kind, like a primitive warrior who glories not just in winning but in standing in the battlefield with his foot on the chest of the slain foe."

Outside of making money and playing the piano, Ken is intensely interested in the workings of the brain. He has funded several scientists' research through the Darts' charitable foundation. Ken is an "obviously intelligent layman," says J. Christian Gillin of the University of California at San Diego, who conducted a Dart-funded study of how sleep deprivation affects brain function. "The brain as a frontier is a fascination" for Ken, says Frank M. Ochberg, a Michigan psychiatrist and terrorism specialist who has worked for the Secret Service and the FBI and is a regular recipient of the Dart foundation's largesse. Tom Dart says the fascination has a practical application. In 1991, he claims, Ken theorized that research might make it possible to keep his brain alive after his body died, enabling him to avoid estate taxes for eternity. Ken won't comment.

For his part, Robert C. Dart, Ken's quiet younger brother, is pursuing his own novel and aggressive estate-preserving strategy. On Feb. 4, he served his wife, Katina, with divorce papers filed a day earlier in British courts. The couple, who married in 1980, had lived in London just over a year—and Britain requires a year's residency before it will hear a divorce suit. In court papers, Katina accuses Bob of "forum-shopping" and of moving her to England expressly to avoid U.S. taxes and divorce her. She says his fortune alone is $1 billion.

If her allegation is true, Bob's strategy is darkly ingenious. In the U.S., a couple without a prenuptial agreement generally splits assets acquired during a marriage. But in Britain, the wealthy can use a tactic called "the millionaire's defense." The wealthier spouse pays a amount, set by the court, to provide fo the other spouse's lifetime expenses. In s doing, the "millionaire" ducks any re quirement to disclose his net worth. Th richest such settlement in British histor says John F. Schaefer, Katina Dart American attorney, has been $14.4 millio

Though Katina sued to move the cas to Michigan, the Michigan judge has so fa said only that he has jurisdiction ove their children, who re main U.S. citizens. I June, a British cour ruled it had jurisdictio over the division of prop erty. So Bob may fre himself of his marriage as he did from his cour try, on the cheap.

Katina Dart's court fi ings reveal how the fam ily may have gathere information on its deb positions. On Mar. 18 they say, the Darts London home was raid ed by police becaus Bob Dart allegedly ob tained classified "in-coun try reports" on Poland the former Czechoslova kia, and Hungary early this year. The document allege that these "top se cret" reports, compile by the CIA and Britis intelligence, were take from the Special Ai Services camp in Here ford, England. Conse quently, Katina alleged the couple could be de ported before their case can be decided. Britis intelligence authorities wouldn't comment. A lo cal police spokesman says it's "most unlikely [the raid] happened at all."

Even if Bob gets his millionaire's defense, he probably shouldn't rest easy. In a clan this contentious, you're never sure of your allies, Tom notes wryly. With the divorce, the allegations of stolen spy papers, and deportation in the air, "this would be an opportune time for Ken to squeeze Bob out," he says. The Dart spokeswoman says the notion is "outrageous and untrue." Still, says Tom, "Wealth and power can be incredibly seductive. With my family, it just gets more distorted and extreme." The argument has a certain logic. After all, half of $4.4 billion doesn't buy what it used to.

By Elizabeth Lesly in Mason, Mich.

The Darts' Savvy Trades

Thanks to Ken Dart's canny investment plays, the family has seen its wealth swell

SALOMON INC.

- Began accumulating stake in days following firm's August, 1991, Treasuries-market scandal. Eventually spent approximately $269 million for 8.85% stake
- In March, 1994, shorted 7.6 million shares, netting $379.3 million. Made $56.8 million selling some shares outright
- Still holds a 7.6% stake, presently worth $331.9 million
- Gain: $499.0 million, or 186% thus far

IMMUCOR INC.

- Bought 5.3% stake in late 1987 for about $811,500
- Sold 1.3% stake in July, 1991, for $1.9 million
- Bought more shares in mid-1994 for $1.9 million. Stake now worth $4.6 million
- Gain: $3.8 million, or 469%

BRAZILIAN DEBT

- Purchased 4% of Brazil's $35 billion debt in 1991 and 1992 for about $375 million
- After a debt restructuring in 1994, the stake was worth $980 million
- Gain: $605 million, or 161%

FEDERAL HOME LOAN MORTGAGE CORP.

- Purchased 10.8% in 1991 for approximately $300 million
- Sold in stages beginning in 1992, for approximately $1.3 billion
- Gain: About $1 billion, or 333%

DATA: BUSINESS WEEK ESTIMATES; SECURITIES & EXCHANGE COMMISSION FILINGS; BLOOMBERG FINANCIAL MARKETS; THOMAS J. DART

AMERICA: POWER PERFORMER

Japan has hit a brick wall, and Europe is sputtering

The contrast could hardly be more stark: Corporate America vs. Japan Inc. In the U.S., rising productivity, soaring profits, and growing international revenues are sharply boosting the market value of companies, especially in computers, drugs, and consumer products. But the superstrong yen and weak financial system are hammering Japanese companies, sending profits and market capitalization plunging.

These are the dramatic results of BUSINESS WEEK's eighth annual Global 1000. While U.S. companies boosted collective market value by almost 20%, profits by 34%, and return on equity by 13%, Japanese companies lost 24% of their market value, measured in yen. They also saw profits in yen drop 10% and struggled with a mediocre 5% return on equity—far less than the average 20.8% for U.S. companies. The Global 1000, which is compiled by Geneva-based Morgan Stanley Capital International, tracks some 2,700 companies in 21 countries. The publicly traded companies are ranked on a worldwide basis, using market value and other data measured as of May 31, 1995.

The 1995 rankings reflect this year's currency swings, since all valuations are translated into U.S. dollars from local currencies. The yen's strength against the greenback, therefore, masks Japan's terrible performance somewhat. A double-digit drop in market value moderates to only a 6.4% slide in dollar terms, for example, while profits rise by 12%. Likewise, French and German companies recorded almost no market value gains in their local currencies—but got boosts of 13% and 18%, respectively, in dollars.

For the third year, Morgan Stanley has also compiled a list of market values for the top companies in emerging markets. The data reflect world-class performances at companies from South Korea to South Africa (page 92).

In the developed economies, this year's surprise was the strength of the U.S. A year ago, analysts feared American corporate profits would soon start sagging. Instead, many U.S. companies have gained in the rankings, especially in high tech. Microsoft Corp. advanced from No. 33 on the list to 20, while microprocessor titan Intel Corp. moved from 48 to 21. Meanwhile, Coca-Cola Co. jumped from 14th place to 6th as it added $26.4 billion to market value, the most for any company. A big jump in Coke's international profits pushed the company into the top 10.

Japan could use such a jump in profits. Analysts figure gains in export profits will remain elusive at a rate of 84 yen to the dollar, below the estimated breakeven point of many manufacturers. At home, Japanese lenders of all sorts are hard hit with $1 trillion in restructured or nonperforming loans on their books. Comments Andrew Shipley, an economist for Lehman Brothers Inc. in Tokyo: "We are facing a crisis of confidence in the credit system."

But the story does not belong exclusively to the U.S. and Japan. For example, Finland's Nokia Corp. enjoyed an almost fivefold profit gain, thanks

How the Giants Stack Up

SALES (BILLIONS OF U.S. DOLLARS)

1	MITSUBISHI CORP.	206.3
2	MITSUI & CO.	201.3
3	ITOCHU	196.9
4	SUMITOMO CORP.	190.8
5	MARUBENI	176.3
6	GENERAL MOTORS	150.6
7	FORD MOTOR	128.4
8	NISSHO IWAI	118.4
9	EXXON	101.5
10	ROYAL DUTCH/SHELL GROUP	97.8

PROFITS (BILLIONS OF U.S. DOLLARS)

1	ROYAL DUTCH/SHELL GROUP	6.43
2	GENERAL ELECTRIC	5.92
3	FORD MOTOR	5.75
4	GENERAL MOTORS	5.66
5	EXXON	5.10
6	PHILIP MORRIS	4.73
7	AT&T	4.71
8	CHRYSLER	3.71
9	CITICORP	3.42
10	HSBC HOLDINGS	3.26

SHARE-PRICE GAIN (PERCENTAGE CHANGE FROM 1994 IN U.S. DOLLARS)

1	SAP	225.1
2	LSI LOGIC	181.3
3	3COM	172.3
4	MICRON TECHNOLOGY	164.4
5	INFORMIX	163.0
6	NOKIA	150.5
7	SUN MICROSYSTEMS	115.5
8	WELLCOME	103.3
9	DIGITAL EQUIPMENT	101.1
10	SANTA FE PACIFIC	95.6

RETURN ON EQUITY (PERCENTAGE)

1	VASTAR RESOURCES	435.9
2	SMITHKLINE BEECHAM	160.1
3	AVON PRODUCTS	142.0
4	DORDTSCHE PETROLEUM	130.6
5	QUAKER OATS	107.9
6	UST	105.4
7	TURNER BROADCASTING SYSTEM	71.6
8	CBS	71.0
9	RENTOKIL GROUP	65.8
10	WOLTERS KLUWER	64.2

DATA: MORGAN STANLEY CAPITAL INTERNATIONAL, BUSINESS WEEK

ts worldwide success in digital cellu- phones. Germany's SAP, a leading ker of client-server software with a ng U.S. business, saw its net in- e almost double. In Britain, take- rs had their effect too. Glaxo Hold- s PLC's acquisition of a controlling ke in Wellcome PLC secured Glaxo a 2 spot in the British rankings. Take- r speculation has also fueled the 45% rket value jump for Zeneca, the old rmaceuticals division of Imperial emical Industries PLC that was spun in 1993.

n Britain, the globalization of de- nd for such Western products as ice am, detergent, and beauty aids boost- results for Unilever PLC, the Anglo- ch consumer-products giant. The pany received kudos for its perfor- nce in India, China, and Brazil. The herlands' Heineken, which is pushing key beer brand worldwide, also used marketing savvy to increase profits. l France's LVMH Moët Hennessy is Vuitton, purveyors of champagne, fume, and luggage, recorded big prof- gains from a booming export busi- s. The newly affluent of Asia in par- lar are snapping up luxury goods.

RENCIES AND POLITICS. The smaller nomies turned in widely differing formances, depending on such vari- es as currencies and local politics. devalued krona, for example, pow- d Swedish exports, boosting profits the drugmaker Astra and the tele- supplier L. M. Ericsson. Yet in Ita- n spite of dramatic export gains for panies such as Fiat, political tur- l and the fear of inflation generally et the beneficial effects of the weak- ira on company stocks. In Canada, a eral rise in commodities prices ad- ced the profits of mining companies n as Barrick Gold, Alcan Aluminum, Noranda.

n contrast to countries with weak rencies, Germany's blue-chip industri- such as Daimler Benz, Volkswagen, Siemens, felt the negative impact of mark's 16% appreciation against the ar. Here, fear of the future created a disjuncture between recent profits stock prices. Major restructuring sted German results overall. Yet in- tors feared the imminent impact of mark on exports, as well as the cost generous wage settlement with the ons in March.

Overall, this year's mixed results re- t a growing worry about prospects recovery in Japan and Europe. For- ately for the global economy, they show the surprising strength of ny individual companies operating und the world.

By Christopher Power in New York, h bureau reports

The Top 100 Companies

Americans weren't the only companies making strong showings. This year's fast risers included Unilever and Glaxo

RANK 1995	RANK 1994			MARKET VALUE Billions of U.S. dollars
1	1	NTT	Japan	129.01
2	2	ROYAL DUTCH/SHELL	Neth./Britain	107.63
3	3	GENERAL ELECTRIC	U.S.	98.24
4	5	EXXON	U.S.	88.65
5	7	AT&T	U.S.	80.30
6	14	COCA-COLA	U.S.	78.63
7	6	TOYOTA MOTOR	Japan	72.43
8	4	MITSUBISHI BANK	Japan	68.75
9	8	INDUSTRIAL BANK	Japan	68.34
10	10	FUJI BANK	Japan	66.40
11	9	SUMITOMO BANK	Japan	65.31
12	11	SANWA BANK	Japan	62.03
13	18	PHILIP MORRIS	U.S.	61.57
14	16	ROCHE HOLDING	Switzerland	60.50
15	12	DAI-ICHI KANGYO BANK	Japan	58.99
16	23	MERCK	U.S.	58.12
17	13	WAL-MART STORES	U.S.	57.14
18	24	IBM	U.S.	54.00
19	22	PROCTER & GAMBLE	U.S.	49.40
20	33	MICROSOFT	U.S.	49.15
21	48	INTEL	U.S.	46.36
22	42	JOHNSON & JOHNSON	U.S.	42.66
23	20	TOKYO ELECTRIC POWER	Japan	42.41
24	15	SAKURA BANK	Japan	40.15
25	32	NESTLE	Switzerland	39.47
26	30	MOBIL	U.S.	39.40
27	56	GLAXO WELLCOME	Britain	39.38
28	27	BRITISH TELECOMMS.	Britain	38.93
29	31	BRITISH PETROLEUM	Britain	38.88
30	41	PEPSICO	U.S.	38.71
31	34	ALLIANZ HOLDING	Germany	37.51
32	21	GENERAL MOTORS	U.S.	36.13
33	29	BANK OF TOKYO	Japan	36.06
34	35	AIG	U.S.	35.94
35	39	UNILEVER	Neth./Britain	35.89
36	19	DUPONT	U.S.	35.74
37	17	NOMURA SECURITIES	Japan	35.25
38	49	MOTOROLA	U.S.	35.21
39	45	HSBC HOLDINGS	Britain	34.00
40	38	AMOCO	U.S.	33.94
41	44	BRISTOL-MYERS SQUIBB	U.S.	33.67
42	80	HEWLETT-PACKARD	U.S.	33.64
43	25	MATSUSHITA ELECTRIC INDL.	Japan	32.46
44	37	GTE	U.S.	32.21
45	28	HITACHI LTD.	Japan	32.16
46	58	ABBOTT LABORATORIES	U.S.	32.12
47	43	CHEVRON	U.S.	32.02
48	26	SINGAPORE TELECOMMS.	Singapore	31.18
49	36	BELLSOUTH	U.S.	30.34
50	40	FORD MOTOR	U.S.	29.96
51	60	WALT DISNEY	U.S.	29.08
52	51	ASAHI BANK	Japan	28.80
53	52	SEVEN-ELEVEN JAPAN	Japan	27.95
54	77	PFIZER	U.S.	27.88
55	54	SBC COMMUNICATIONS	U.S.	27.41
56	89	BERKSHIRE HATHAWAY	U.S.	26.74
57	59	SIEMENS	Germany	26.58
58	64	McDONALD'S	U.S.	26.25
59	67	UNION BANK OF SWITZ.	Switzerland	25.93
60	57	KANSAI ELECTRIC POWER	Japan	25.53
61	47	TOKAI BANK	Japan	25.41
62	94	SANDOZ	Switzerland	25.40
63	63	FANNIE MAE	U.S.	25.30
64	70	MINNESOTA MINING & MFG.	U.S.	25.19
65	65	DAIMLER-BENZ	Germany	24.76
66	53	NIPPON STEEL	Japan	24.74
67	71	AMERITECH	U.S.	24.53
68	66	BROKEN HILL PROPRIETARY	Australia	24.23
69	62	BELL ATLANTIC	U.S.	24.21
70	88	B.A.T. INDUSTRIES	Britain	24.06
71	69	HONG KONG TELECOMMS.	Hong Kong	23.57
72	75	DEUTSCHE BANK	Germany	23.19
73	55	MITSUBISHI HEAVY INDS.	Japan	23.13
74	95	AMERICAN HOME PRODUCTS	U.S.	22.87
75	72	ITO-YOKADO	Japan	21.95
76	98	SEARS, ROEBUCK	U.S.	21.91
77	46	LONG-TERM CREDIT BANK	Japan	21.85
78	105	ELI LILLY	U.S.	21.79
79	90	ELF AQUITAINE	France	21.32
80	126	SMITHKLINE BEECHAM	Britain	21.22
81	120	CITICORP	U.S.	21.14
82	74	MITSUBISHI TRUST & BANKING	Japan	21.08
83	103	BRITISH GAS	Britain	20.85
84	85	EAST JAPAN RAILWAY	Japan	20.60
85	109	TELECOM ITALIA	Italy	20.58
86	250	ELECTRONIC DATA SYSTEMS	U.S.	20.50
87	117	EASTMAN KODAK	U.S.	20.47
88	91	DOW CHEMICAL	U.S.	20.30
89	50	TOSHIBA	Japan	20.27
90	92	CHUBU ELECTRIC POWER	Japan	20.23
91	113	BOEING	U.S.	20.08
92	96	CIBA-GEIGY	Switzerland	20.00
93	82	BTR	Britain	19.71
94	84	HANSON	Britain	19.61
95	102	BANKAMERICA	U.S.	19.49
96	76	ASSICURAZIONI GENERALI	Italy	19.39
97	99	US WEST	U.S.	19.36
98	NR	JAPAN TOBACCO	Japan	18.81
99	108	ATLANTIC RICHFIELD	U.S.	18.70
100	79	HOME DEPOT	U.S.	18.69

Country by Country

THE BUSINESS WEEK GLOBAL 1000

Glossary

MARKET VALUE: Share price on May 31, 1995, multiplied by latest available number of shares outstanding, translated into U.S. dollars at May month-end exchange rates. Market value may include several classes of stock; price and yield data are based on the company's most widely held issue.
SHARE PRICE AND ANNUAL CHANGE: Closing per-share price on May 31, 1995, in U.S. dollars. Annual percent change from May 31, 1994, to May 31, 1995, both in U.S. dollars and in each company's local currency.
PRICE/BOOK VALUE RATIO: The ratio of May closing price to latest available net worth per share or common shareholders' equity investment.
PRICE/EARNINGS RATIO: The ratio of May closing price to latest 12 months' earnings per share.
YIELD: Latest 12 months' dividends per share as a percent of May closing price.
SALES: Net sales reported by company, translated at May 31 exchange rates; revenues for banks and other financial institutions are not included because they are not comparable to those of industrial companies.
PROFITS: Latest aftertax earnings available to common shareholders, translated at May 31 currency exchange rates; profits are from companies' continuing operations before extraordinary items. Sales, profits, and assets are for 1994 fiscal year unless noted.
RETURN ON EQUITY: Latest 12-months' earnings per share as percent of most recent book value per share.
INDUSTRY CODE: For key to the two-digit code, see page 87.

Data for individual companies: Morgan Stanley Capital International, unless otherwise indicated. For further information on MSCI data, contact Morgan Stanley & Co. at 212 703-2965 (New York) or 171 425-6660 (London). Country composites and rankings calculated by BUSINESS WEEK. Additional data by Standard & Poor's Compustat, a division of the McGraw-Hill Companies, if footnoted.

COUNTRY RANK		GLOBAL 1000 RANK	MARKET VALUE U.S $ MIL	PRICE PER SHARE U.S. $	% CHANGE FROM 1994 (U.S. $)	(LOCAL)	PRICE/ BOOK VALUE RATIO	P/E RATIO	YIELD %	SALES U.S $ MIL	PROFITS U.S $ MIL	ASSETS U.S $ MIL	RETURN ON EQUITY %	INDUSTRY CODE
GLOBAL COMPOSITE			9447213	147	16	5	2.7	28	2.7	9879864	443141	33053098	13.7	
AUSTRALIA														
COUNTRY COMPOSITE			110805	6	4	7	1.9	17	4.3	57828	6856	321346	12.1	
1	BROKEN HILL PROPRIETARY	68	24227	13	4	6	3.2	22	2.8	11908	924	19952	14.6	11
2	NEWS CORP.	152	14701	5	16	19	1.5	16	0.4	8364	872	19394	9.5	51
3	NATIONAL AUSTRALIA BANK	209	11927	9	–2	0	1.6	9	6.7	NA	1193	90604	17.8	61
4	CRA	338	7975	13	0	3	2.4	18	3.2	4182	443	6635	13.1	25
5	WESTPAC BANKING	409	6711	4	7	10	1.3	11	4.5	NA	507	75367a	11.7c	61
6	COMMONWEALTH BANK OF AUSTRALIA	442	6140	7	11	13	1.4	10	7.9	NA	491	65	13.4	61
7	WESTERN MINING	455	5903	5	-4	–2	2.1	42	1.6	1080	86	3374	5.0	24
8	BTR NYLEX	460	5846	2	–11	–9	1.9	17	4.5	4804	347	6250	11.1	37
9	AUSTRALIA & NEW ZEALAND BANKING GROUP	542	4991	4	13	16	1.3	8	5.8	NA	522	72831	15.0	61
10	AMCOR	600	4469	7	5	7	2.3	17	3.5	3994	243	4103	13.5	23
11	COLES MYER	748	3655	3	–1	2	1.7	12	4.8	11459	290	4973	14.2	54
12	CSR	892	2982	3	–11	–9	1.3	11	6.6	4261b	273b	4757	11.7c	71
13	FOSTERS BREWING GROUP	911	2893	1	2	5	1.4	13	4.9	3015	200	4537	11.4	43
14	LEND LEASE	925	2867	13	8	10	1.8	16	4.5	1036	167	2220	11.7	64
15	WOODSIDE PETROLEUM	962	2764	4	28	31	3.4	45	1.6	379	62	2245	7.6	11
16	BORAL	968	2754	3	–4	–1	1.4	11	5.9	3345	235	4038	12.7	21
AUSTRIA														
COUNTRY COMPOSITE			10276	83	12	–4	1.5	27	1.3	8246	–124	127319	5.3	
1	BANK AUSTRIA	581	4656	82	–4	–18	1.7	38	1.2	NA	138a	59124a	4.4	61
2	OMV	922	2875	106	34	15	1.9	LOSS	0.9	8246a	–444a	6055a	NEG	11
3	CREDITANSTALT-BANKVEREIN	973	2744	62	5	–10	0.9	15	1.6	NA	182	62140	6.1	61
BELGIUM														
COUNTRY COMPOSITE			60027	219	16	0	1.4	14	4.6	47838	4746	462922	10.2	
1	ELECTRABEL	222	11428	210	24	7	1.6	13	7.1	7070	888	15355a	12.5c	12
2	PETROFINA	403	6978	300	–6	–19	1.6	20	3.2	20006	346	11926	8.2	11
3	SOCIETE GENERALE DE BELGIQUE	528	5108	72	1	–13	0.9	13	5.5	NA	379	9493	6.6c	71
4	TRACTEBEL	546	4967	362	18	2	1.6	14	4.6	9078a	339a	19356a	11.8	71
5	GENERALE DE BANQUE	577	4709	314	30	12	1.3	11	5.3	NA	436	139186	12.5	61
6	SOLVAY	586	4599	552	19	2	1.4	19	4.2	9035	239	9246a	7.0c	22
7	FORTIS AG (5)	NR	3799	107	36	17	1.5	11	3.2	NA	653	43871	13.2	63
8	KREDIETBANK	768	3510	239	19	2	1.3	10	4.2	NA	359	91676	13.0	61
9	GROUPE BRUXELLES LAMBERT	844	3151	134	2	–12	1.2	14	5.0	NA	228	4611a	8.9c	71

*Based on nonconsolidated results. †Acquired by Glaxo Wellcome. a) Based on 1993 data. b) Based on 1995 data. c) Difference between earnings and book value data between 12 and 18 months. 1) Global ranking calculated for Royal Dutch/Shell Group combining market value of the Netherlands' Royal Dutch Petroleum and Britain's Shell Transport & Trading. 2) Global ranking calculated for Unilever by combining market value of the Netherlands' Unilever NV and Britain's Unilever PLC. 3) Global ranking calculated for ABB Asea Brown Boveri by combining market value of Sweden's ASEA and Switzerland's BBC Brown Boveri. 4) Global ranking calculated for Reed Elsevier by combining market value of Britain's Reed International and the Netherlands' Elsevier. 5) Global ranking calculated for Fortis by combining market of Belgium's Fortis AG and the Netherlands' Fortis AMEV. 6) Data for this company provided by Standard & Poor's Compustat, a division of the McGraw-Hill Companies. Unless otherwise noted, all other data provided by Morgan Stanley Capital International. LOSS = Negative ratio. NA = Not available. NEG = Negative return. NM = Not meaningful.

NTRY	GLOBAL 1000 RANK	MARKET VALUE U.S. $ MIL.	PRICE PER SHARE U.S $	% CHANGE FROM 1994 (U.S. $)	(LOCAL)	PRICE/ BOOK VALUE RATIO	P/E RATIO	YIELD %	SALES U S $ MIL	PROFITS U S $ MIL.	ASSETS U S $ MIL	RETURN ON EQUITY %	INDUSTRY CODE
0 ELECTRAFINA	850	3131	105	4	−17	1.1	17	4.5	NA	183	2681a	6.7c	11
1 BANQUE BRUXELLES LAMBERT	882	3014	159	34	15	1.2	11	4.7	NA	267	90069a	11.0c	61
2 GROUPE ROYALE BELGE	891	2982	186	20	3	1.6	16	4.4	2649	187	23020a	10.1c	63
3 POWERFIN	996	2651	111	15	−1	1.2	11	4.6	NA	242	2433	11.3	12
RITAIN													
UNTRY COMPOSITE		**892331**	**8**	**19**	**13**	**3.2**	**16**	**4.0**	**759632**	**64687**	**2435095**	**21.2**	
1 SHELL TRANSPORT & TRADING (1)	NR	40648	12	15	10	1.8	16	4.4	97848	6431	109233	11.2	11
2 GLAXO WELLCOME	27	39378	12	43	36	4.4	17	4.8	8985	2070	12529	26.5	45
3 BRITISH TELECOMMUNICATIONS	28	38926	6	14	9	1.9	14	5.6	22065b	2747b	35846	13.3c	55
4 BRITISH PETROLEUM	29	38880	7	21	15	2.2	14	3.1	52607	2451	49388	16.1	11
5 HSBC HOLDINGS	39	33996	13	20	14	2.0	10	4.1	NA	3261	320124	19.2	61
6 B. A.T. INDUSTRIES	70	24058	8	26	20	3.3	12	5.6	19334	1914	63519	27.1	71
7 SMITHKLINE BEECHAM	80	21225	8	39	33	24.9	16	3.2	10313	1379	12745	160.1	45
8 BRITISH GAS	83	20847	5	20	14	1.7	14	6.0	15406	1473	27096	12.2	12
9 BTR	93	19707	5	−4	-9	4.6	14	4.9	15002	1384	14210	33.1	71
0 HANSON	94	19606	4	1	-6	2.7	12	6.3	17790	1180	34211	22.2	71
1 MARKS & SPENCER	103	18309	7	11	6	3.5	18	3.1	10818b	991b	8205	18.7c	54
2 BARCLAYS BANK	113	17528	11	40	33	1.8	10	3.9	NA	1703	257987	17.5	61
3 UNILEVER PLC (2)	NR	15768	19	27	21	4.4	15	2.7	45454	2386	27138	29.9	44
4 GUINNESS	139	15278	8	6	0	2.6	15	3.6	7450	1018	12739a	17.1c	43
5 WELLCOME†	151	14788	17	103	93	5.1	23	2.4	3616	642	4446	22.2	45
6 NATIONAL WESTMINSTER BANK	153	14689	9	32	26	1.5	9	5.0	NA	1676	249234	18.1	61
7 CABLE & WIRELESS	154	14666	7	2	−3	2.8	18	2.7	8154b	821b	11817	15.7c	55
8 ZENECA GROUP	164	14058	15	45	38	5.3	20	3.8	7117	704	7436	26.3	45
9 GENERAL ELECTRIC CO.	166	13935	5	12	6	2.6	16	4.3	15411	858	9978	16.8	34
0 RTZ	172	13621	13	0	−5	2.5	14	3.6	6262	945	10248	17.3	24
1 LLOYDS BANK	176	13509	10	28	22	2.3	11	4.9	NA	1266	116283	21.9	61
2 GRAND METROPOLITAN	183	13245	6	−5	−10	2.3	13	4.5	12359	1063	15535	18.1	44
3 J. SAINSBURY	187	12880	7	29	23	2.6	15	3.3	19166b	848b	8723	17.5c	54
4 REUTERS HOLDINGS	193	12468	7	8	3	11.0	22	2.1	3668	551	2554	50.6	52
5 PRUDENTIAL	248	10295	5	30	24	8.8	16	5.3	12767	645	99542	55.5	63
6 VODAFONE GROUP	253	10057	3	23	17	9.0	25	1.8	1352	389	1674	35.5	55
7 ABBEY NATIONAL	257	9894	8	28	22	1.7	10	4.7	NA	969	149832	16.5	61
8 GREAT UNIVERSAL STORES	259	9802	10	18	12	1.7	18	2.8	4915	548	7303	9.7	54
9 TESCO	267	9645	5	47	40	2.0	15	3.6	17279b	612b	9385b	12.7	54
0 NATIONAL POWER	275	9491	7	17	11	2.3	10	4.1	6280b	969b	7873	23.2c	12
1 IMPERIAL CHEMICAL INDUSTRIES	286	9148	13	4	−1	1.6	20	4.3	14597	299	14303	7.9	22
2 ALLIED DOMECQ	314	8526	8	5	−10	2.0	12	5.6	9732b	615b	9824	16.3c	43
3 THORN EMI	317	8416	20	27	21	7.2	20	3.5	6818	354	4651	35.3	46
4 BASS	329	8171	9	18	13	1.4	14	4.6	7072	554	10124	10.1	43
5 BAA	344	7903	8	10	5	1.9	18	2.4	1744	381	6076	10.6	52
6 REED INTERNATIONAL (4)	NR	7798	14	12	7	6.9	22	3.1	4821	718	7392	31.9	51
7 BOOTS	349	7777	8	7	2	3.4	15	3.7	6620	543	4707	22.8	54
8 BRITISH SKY BROADCASTING GROUP	366	7460	4	NA	NA	−5.2	31	1.5	874	148	937	NA	51
9 CADBURY SCHWEPPES	367	7432	8	11	5	2.6	15	4.1	6402	416	5563	16.7	44
0 COMMERCIAL UNION ASSURANCE	420	6499	10	25	19	1.4	12	5.4	10742	467	48137	11.6	63
1 TSB GROUP	427	6450	4	28	22	2.1	11	4.5	NA	540	55126	19.5	61
2 ROTHMANS INTERNATIONAL	429	6415	10	74	66	5.9	16	2.7	3948	364	4567	36.4	43
3 BRITISH AIRWAYS	439	6240	7	14	9	2.1	10	3.8	11401b	596b	12041	20.5c	56
4 BOC GROUP	445	6037	13	18	12	2.5	17	3.9	5230	332	6211	14.6	22
5 ARGYLL GROUP	451	5977	5	48	41	2.1	14	4.5	9237b	411b	5090	14.5c	54
6 PENINSULAR & ORIENTAL STEAM NAVIGATION	457	5878	10	2	−3	1.6	16	6.2	9515	367	10386	9.8	58
7 RANK ORGANISATION	466	5777	7	22	16	2.4	17	3.8	3493	346	4817	14.5	53
8 POWERGEN	468	5772	8	15	9	2.0	10	3.7	4583b	616b	5654	20.3c	12
9 VENDOME LUXURY GROUP	479	5625	8	21	15	3.8	20	1.7	1875	278	2264	18.8	46
0 BRITISH STEEL	483	5610	3	36	30	0.9	20	2.5	6658	110	8872	4.8	25
1 GRANADA GROUP	500	5436	9	26	20	7.1	18	2.1	3333	286	3009	40.3	53
2 STANDARD CHARTERED	503	5406	6	54	47	2.8	11	2.8	NA	477	50659a	25.0c	61
3 PEARSON	506	5322	10	4	−1	3.2	15	3.1	2462	299	3811	21.6	51
4 ROYAL BANK OF SCOTLAND GROUP	525	5128	6	4	−1	1.7	8	4.4	NA	526	71994	19.8	61
5 LAND SECURITIES	535	5055	10	2	−3	0.9	18	5.0	NA	286b	8535	5.2c	64
6 KINGFISHER	561	4845	7	−12	−16	2.5	15	4.2	7763b	334b	4905b	17.2	54
7 SCOTTISH & NEWCASTLE BREWERIES	565	4808	9	10	5	1.8	15	4.1	2796	257	4748	12.0	43
8 ASSOCIATED BRITISH FOODS	589	4559	10	29	23	1.4	10	3.1	7169	489	5093	14.2	44
9 TOMKINS	591	4544	4	16	10	3.1	15	4.0	5155	276	3292	20.8	71
0 SUN ALLIANCE & LONDON INSURANCE	595	4527	6	26	20	1.7	12	5.6	7388	381	16828	14.7	63

		GLOBAL 1000 RANK	[illegible]	PRICE [illegible]	FROM 1994 (U.S. $)	FROM 1994 (LOCAL)	BOOK VALUE RATIO	P/E RATIO	YIELD [illegible]	SALES U.S. $ MIL	PROFITS U.S. $ MIL	ASSETS U.S. $ MIL	RETURN ON EQUITY [illegible]	[illegible]
61	WHITBREAD	596	4526	9	21	16	1.3	15	4.3	3927b	292b	5168b	8.2	43
62	GENERAL ACCIDENT FIRE & LIFE ASSURANCE	602	4453	10	[illegible]	12	1.5	8	5.9	6756	489	25012	17.6	63
63	RECKITT & COLMAN	606	4435	10	[illegible]	[illegible]	4.1	31	3.6	3303	130	5037	13.2	44
64	ROLLS-ROYCE	[illegible]	4332	3	10	[illegible]	1.7	29	3.3	5025	129	4928	6.0	31
65	SCOTTISH POWER	623	4326	5	1	-4	2.9	10	5.1	2726b	435b	2708	29.1c	12
66	LLOYDS ABBEY LIFE	627	4307	6	[illegible]	15	2.1	13	6.3	1916	329	19948	15.9	63
67	SIEBE	[illegible]	4088	10	14	[illegible]	2.7	18	2.4	2961	202	4097	15.4	71
68	RENTOKIL GROUP	672	4087	[illegible]	34	28	14.7	22	1.6	1168	[illegible]	678	65.8	52
69	BANK OF SCOTLAND	694	3968	3	28	22	2.3	10	3.4	NA	[illegible]	48845	23.5c	61
70	LEGAL & GENERAL GROUP	708	3886	8	27	21	7.4	22	5.4	3840	176	[illegible]	33.5	63
71	ASDA GROUP	721	3846	1	[illegible]	59	1.8	LOSS	2.7	7755	-272	4202	NEG	54
72	BOWATER	733	3742	7	18	12	4.2	15	3.7	3778	248	3412	27.7	23
73	REDLAND	761	3567	7	-7	-12	1.7	13	5.6	4408	270	5506	12.6	21
74	BRITISH AEROSPACE	764	3533	8	22	16	3.7	17	2.4	[illegible]	[illegible]	12505	21.7	31
75	BLUE CIRCLE INDUSTRIES	769	3507	[illegible]	[illegible]	[illegible]	2.2	24	4.8	2828	146	3768	9.2	21
76	SCHRODERS	770	3506	18	[illegible]	38	3.0	17	1.5	NA	210	[illegible]	18.1	[illegible]
77	NORTH WEST WATER GROUP	773	3486	[illegible]	25	19	1.1	8	5.5	1608b	411b	5349	12.6c	52
78	ROYAL INSURANCE HOLDINGS	777	3465	5	45	38	1.2	[illegible]	4.5	7565	543	14812	20.8	63
79	FORTE	778	3461	[illegible]	[illegible]	[illegible]	0.9	23	4.1	2842b	141b	7293b	4.0	53
80	RMC GROUP	780	3460	18	30	[illegible]	2.4	16	2.6	5843	214	4500	15.1	21
81	ARJO WIGGINS APPLETON	782	3456	4	3	-2	1.7	15	3.4	[illegible]	232	4245	11.4	23
82	GKN	783	3453	10	13	7	2.7	17	4.3	[illegible]	[illegible]	3724	16.2	38
83	CARLTON COMMUNICATIONS	784	3453	15	13	[illegible]	6.3	15	2.9	2232	186	1860	42.9	53
84	LADBROKE GROUP	[illegible]	3383	3	14	8	1.1	29	4.1	6928	[illegible]	6376	3.9	53
85	3i GROUP	[illegible]	3345	[illegible]	NA	NA	1.1	38	2.6	NA	79	5752	2.8	62
86	SEVERN TRENT	816	3297	9	22	16	1.0	[illegible]	5.1	[illegible]	413	5469	10.2	52
87	DE LA RUE	818	3282	15	13	[illegible]	5.5	17	2.8	942	[illegible]	[illegible]	31.9	52
88	ENTERPRISE OIL	824	3247	7	8	3	2.2	35	4.8	1034	87	3881	6.2	11
89	THAMES WATER	828	3221	8	13	7	1.1	7	5.7	1736	410	5023	14.9	52
90	WOLSELEY	836	[illegible]	6	[illegible]	-6	3.6	13	3.1	5169	214	2726	28.1	21
91	WILLIAMS HOLDINGS	869	3069	5	[illegible]	[illegible]	4.5	15	5.1	2213	[illegible]	1960	29.3	21
92	COURTAULDS	873	3048	[illegible]	-3	-8	3.3	[illegible]	4.0	3385b	162b	[illegible]	17.8c	22
93	BURMAH CASTROL	900	2940	15	13	8	3.1	13	4.0	4661	218	3433	23.1	11
94	SMITH & NEPHEW	909	2911	3	21	15	4.1	16	3.9	1533	[illegible]	1344	26.0	45
95	SOUTHERN ELECTRIC	939	2834	10	19	13	2.2	10	4.6	2828	275	[illegible]	23.0	12
96	GUARDIAN ROYAL EXCHANGE	[illegible]	2818	3	29	23	1.2	LOSS	5.1	5882	-195	24529	NEG	63
97	TI GROUP	945	2806	6	9	[illegible]	5.2	18	4.0	2256	159	1959	29.2	71
98	TATE & LYLE	[illegible]	2805	[illegible]	13	7	2.1	[illegible]	4.1	6705	249	4114	22.8	44
99	UNITED BISCUITS (HOLDINGS)	976	2729	[illegible]	6	1	2.4	20	5.9	5449	140	3188	12.2	44
100	INCHCAPE	985	2693	[illegible]	[illegible]	-34	2.7	12	5.8	9693	224	5943	22.3	59
101	SEARS	1000	2637	2	-3	-8	1.4	17	4.5	3406b	157b	[illegible]	8.3	[illegible]

CANADA

	COUNTRY COMPOSITE		134783	25	11	9	2.3	20	2.8	85437	8274	674021	13.1	
1	SEAGRAM	228	11166	30	1	0	2.0	[illegible]	2.0	5563b	811b	12956b	14.7	43
2	BCE (BELL CANADA ENTERPRISES)	262	9732	31	[illegible]	-12	1.3	13	6.3	15828	[illegible]	27824	9.8	55
3	NORTHERN TELECOM	253	9724	38	23	22	2.9	35	1.1	8874	308	8785	8.2	34
4	BARRICK GOLD	303	8904	25	2	[illegible]	3.4	32	0.5	936	251	3472	10.8	81
5	THOMSON	326	[illegible]	14	16	14	2.6	19	3.6	6354	427	9358	13.6	51
6	IMPERIAL OIL	361	7540	39	27	25	1.7	26	3.4	6582	262	8713	6.6	11
7	ALCAN ALUMINIUM	392	7103	30	28	[illegible]	1.5	27	1.0	8216	96	9989	5.8	24
8	ROYAL BANK OF CANADA	[illegible]	[illegible]	22	10	[illegible]	1.5	9	3.8	NA	854	126423	16.1	61
9	PLACER DOME	447	6032	25	10	9	3.9	[illegible]	1.2	899	105	[illegible]	6.9	81
10	CANADIAN PACIFIC	463	5807	17	8	6	1.2	24	1.4	5152	235	12353	4.8	71
11	BANK OF MONTREAL	488	5566	21	13	11	1.3	[illegible]	4.6	NA	603	100928	14.8	61
12	CANADIAN IMPERIAL BANK OF COMMERCE	509	5272	24	12	10	1.1	[illegible]	4.4	NA	650	110320	11.8	61
13	BANK OF NOVA SCOTIA	566	4804	21	[illegible]	5	1.3	[illegible]	4.3	NA	352	97095	8.0	61
14	TORONTO-DOMINION BANK	592	4538	15	[illegible]	-5	1.2	[illegible]	4.3	NA	499	72867	13.1	[illegible]
15	PANCANADIAN PETROLEUM	603	4448	[illegible]	13	[illegible]	3.0	20	1.6	1080	210	2740	15.5	11
16	NORANDA	607	4423	[illegible]	[illegible]	3	1.5	14	3.8	4935	241	8645	11.0	24
17	IMASCO	633	4262	18	[illegible]	38	1.7	[illegible]	3.8	5941	370	39065	15.4	71
18	NOVA CORP.	639	4239	[illegible]	[illegible]	[illegible]	1.7	9	2.6	2720	420	6031	20.0	12
19	SHELL CANADA	741	3709	33	5	4	1.7	11	5.7	3696	234	4367a	15.6c	11
20	BOMBARDIER	744	3686	22	[illegible]	48	3.6	20	1.3	4341b	177b	3282	17.9c	31
21	INCO	902	2932	25	-2	-3	1.7	42	1.6	2484	67	4016	4.0	24
22	NEWBRIDGE NETWORKS	910	2898	35	-23	-24	8.3	21	0.0	404	115	427	38.7	35
23	FALCONBRIDGE	933	2852	16	NA	NA	2.3	13	1.8	1432	127	2120	17.0	24

NTRY	GLOBAL 1000 RANK	MARKET VALUE U.S. $ MIL.	PRICE PER SHARE U.S. $	% CHANGE FROM 1994 (U.S. $)	(LOCAL)	PRICE BOOK VALUE RATIO	P/E RATIO	YIELD %	SALES U.S. $ MIL.	PROFITS U.S. $ MIL.	ASSETS U.S. $ MIL.	RETURN ON EQUITY %	INDUSTRY CODE
ENMARK													
UNTRY COMPOSITE		**26528**	**8231**	**13**	**–3**	**5.7**	**51**	**1.7**	**9106**	**1093**	**75593**	**10.1**	
TELE DANMARK	368	7431	57	15	–2	1.7	16	3.8	3589	466	6352	10.9	55
2 DAMPSKIBSSELSKABET AF 1912	618	4345	20115	9	–7	15.4	129	0.5	NA	34	408	11.9	58
3 DAMPSKIBSSELSKABET SVENBORG	625	4321	28995	6	–9	12.3	105	0.5	NA	41	477	11.7	58
4 NOVO-NORDISK	690	3984	106	6	–9	1.7	15	0.9	2451	260	3811	11.2	45
5 DEN DANSKE BANK	794	3386	64	29	10	0.9	23	3.4	NA	148	61280	4.0	61
6 CARLSBERG	871	3061	48	14	–3	2.3	21	1.1	3066	145	3265	11.0	43
NLAND													
UNTRY COMPOSITE		**16886**	**33**	**86**	**48**	**3.2**	**14**	**2.0**	**13572**	**1060**	**14481**	**20.1**	
NOKIA	168	13801	46	151	100	5.1	20	1.2	6965	686	6466	25.1	71
2 REPOLA	865	3085	20	21	–4	1.2	8	2.9	6606	374	8014	15.0	23
ANCE													
UNTRY COMPOSITE		**314591**	**141**	**9**	**–3**	**1.7**	**27**	**3.2**	**519800**	**10144**	**2153703**	**8.9**	
ELF AQUITAINE	79	21325	81	11	–2	1.5	LOSS	4.9	41778	–7	52592	0.0	11
2 LVMH MOET HENNESSY LOUIS VUITTON	124	16497	190	35	20	2.7	22	2.8	5626	738	12788	12.2	43
3 L'OREAL	130	16147	263	28	14	3.8	28	1.4	9581	580	9214	13.6	45
4 TOTAL	163	14067	62	12	–1	1.4	21	3.9	27509	681	27121	6.6	11
5 ALCATEL ALSTHOM	180	13319	91	–16	–26	1.1	18	5.0	33725	728	55109	6.1	34
6 CARREFOUR	188	12653	493	49	31	4.9	29	1.6	27419	434	11889	16.7	54
7 COMPAGNIE GENERALE DES EAUX	191	12490	111	0	–12	1.9	18	3.1	31414	673	44947	10.1	52
8 GROUPE DANONE	218	11496	165	10	–3	1.7	16	2.9	15454	710	17538	10.4	44
9 L'AIR LIQUIDE	250	10199	157	25	11	2.6	21	2.7	6388	493	8340	12.3	22
0 COMPAGNIE DE SAINT-GOBAIN	251	10144	125	6	–6	1.3	14	3.7	14986	729	18257	9.5	26
SOCIETE GENERALE	261	9769	117	8	–5	1.0	13	4.1	NA	774	298495	7.8	61
2 BANQUE NATIONALE DE PARIS	280	9363	49	11	–2	1.0	28	2.0	NA	333	292133	3.4	61
3 AXA	315	8495	53	15	2	1.3	19	3.1	NA	456	155771	6.9	63
4 UNION DES ASSURANCES DE PARIS	321	8294	28	4	–8	1.0	26	3.2	30278	316	172253	4.0	63
5 COMPAGNIE DE SUEZ	341	7940	51	6	–17	0.8	LOSS	4.8	NA	–962	123302	NEG	61
6 RENAULT	350	7775	33	NA	NA	0.9	11	3.2	35916	731	45541	8.6	42
7 RHONE-POULENC	355	7727	24	–4	–15	1.2	16	3.5	17362	385	24672	7.4	22
8 PEUGEOT	359	7540	151	5	–7	0.7	12	1.2	33434	624	28241	5.8	42
9 PARIBAS	369	7426	64	–8	–19	0.8	22	5.7	NA	342	260496	3.9	61
0 LAFARGE	413	6656	81	11	–2	1.5	15	3.7	6607	448	9924	10.3	21
LYONNAISE DES EAUX-DUMEZ	464	5803	102	1	–11	1.9	27	3.4	20110	213	31004	6.8	71
2 SANOFI	514	5227	57	45	28	1.5	20	3.2	5252	267	7182	7.9	45
3 MICHELIN	553	4925	46	16	3	2.9	19	1.5	13523	260	14130	15.3	37
4 GROUPE SCHNEIDER	555	4910	78	13	0	1.5	36	2.9	11460	137	11512	4.2	38
5 AGF	558	4891	36	–15	–25	0.8	28	2.5	13972	177	85670	3.0	63
6 PINAULT-PRINTEMPS-REDOUTE	569	4776	217	21	7	1.9	20	3.1	14242	244	10819	9.9	54
7 LEGRAND	652	4193	1511	36	20	4.3	26	1.3	2086	158	2527	16.7	34
8 PROMODES GROUP	667	4122	231	39	23	3.9	23	1.4	19047	181	7860	17.0	54
9 HAVAS	681	4029	81	0	–11	2.2	27	3.2	7032a	114a	5359a	8.1	52
0 ERIDANIA BEGHIN-SAY	698	3941	152	–6	–17	1.2	13	6.0	10217	304	8748	9.0	44
VALEO	724	3816	55	25	11	2.1	19	1.2	4637	199	3947	10.8	37
2 PERNOD RICARD	749	3642	65	16	2	2.1	16	3.7	3185	231	3878	13.4	43
3 CARNAUDMETALBOX	754	3599	44	36	21	1.6	19	3.0	5007	191	5728	8.4	26
4 ALCATEL CABLE	757	3587	73	32	–40	2.0	12	4.1	7906	297	7771	16.2	37
5 CETELEM	814	3300	234	14	1	2.1	16	1.3	NA	202	13644	13.3	62
6 PECHINEY	826	3233	64	–11	–21	1.5	LOSS	4.5	14231	–755	13895	NEG	24
7 ACCOR	831	3199	128	5	–7	1.4	315	4.2	6605a	85a	9182a	0.4	53
8 THOMSON-CSF	843	3152	27	–9	–20	1.2	LOSS	2.2	7320	–194	12241	NEG	31
9 CREDIT LOCAL DE FRANCE	848	3140	88	25	11	1.5	11	4.4	NA	292	78920	13.6	61
0 CREDIT COMMERCIAL DE FRANCE	861	3093	46	13	0	1.1	13	3.0	NA	242	66197	8.8	61
COMPAGNIE BANCAIRE	864	3085	125	30	15	0.8	13	2.4	NA	108	57707	6.5	62
2 COMPAGNIE DE NAVIGATION MIXTE	886	3001	195	3	–8	0.9	19	6.2	NA	158	8936	4.6	71
3 CREDIT LYONNAIS	899	2949	57	–42	–49	0.3	LOSS	0.0	NA	–2435	353	NEG	61
4 CANAL PLUS	919	2879	133	–17	–27	2.1	20	3.4	1925	145	3116	10.7	51
5 BOUYGUES	957	2776	123	8	–5	1.5	24	4.2	14567	115	14752	6.4	32
ERMANY													
UNTRY COMPOSITE		**364599**	**480**	**17**	**1**	**2.8**	**34**	**2.8**	**670093**	**12563**	**2165045**	**10.4**	
ALLIANZ HOLDING	31	37508	1865	24	7	4.2	62	0.8	44524a	682a	167445a	6.8	63
2 SIEMENS	57	26585	475	13	–3	1.9	19	2.8	59871	1008	55513	9.8	34
3 DAIMLER-BENZ	65	24760	483	1	–13	1.8	32	2.3	73655	746	66197	5.7	42
4 DEUTSCHE BANK	72	23192	489	10	–5	1.7	NA	3.4	NA	946	403653	NA	61
5 VEBA	102	18470	380	25	8	1.8	17	4.0	50279	975	42364	10.2	12
6 RWE	123	16497	337	24	6	3.6	21	3.9	39455	653	44586	17.0	12
7 BAYER	129	16201	242	10	–5	1.4	15	5.4	29021a	939a	28430a	8.9	22
8 MUNCHENER RUCK.	146	14926	1730	2	–13	5.5	50	0.7	20268	136	77318	11.0	63

COUNTRY RANK		GLOBAL 1000 RANK	MARKET VALUE U.S. $ MIL	PRICE PER SHARE U.S. $	% CHANGE FROM 1994 (U.S. $)	(LOCAL)	PRICE/ BOOK VALUE RATIO	P/E RATIO	YIELD %	SALES U.S. $ MIL	PROFITS U.S. $ MIL	ASSETS U.S. $ MIL	RETURN ON EQUITY %	INDUSTRY CODE
9	HOECHST	189	12629	215	5	-10	1.7	14	4.7	35129	626	28717	11.6	22
10	BASF	190	12493	214	13	-3	1.2	15	4.7	30909	909	28209	8.3	22
11	DRESDNER BANK	195	12367	279	23	6	1.4	NA	4.9	NA	726a	264916a	NA	61
12	SAP	200	12263	1254	225	179	18.4	121	0.7	780a	103a	924a	15.2	52
13	MANNESMANN	240	10667	292	13	-2	2.5	LOSS	1.5	19790a	-243a	15011a	NEG	38
14	BMW	341	10569	536	8	-7	2.0	18	2.4	29812	493	27362	11.1	42
15	VOLKSWAGEN	330	8950	280	-4	-18	1.2	42	1.1	56646	105	57381	2.9	42
16	COMMERZBANK	345	7893	236	15	-1	1.1	NA	5.1	NA	709	241916	NA	61
17	VIAG	353	7757	379	35	16	2.1	20	2.7	20493	715	25515	10.6	71
18	BAYERISCHE VEREINSBANK	357	7657	291	8	-7	1.0	NA	5.0	NA	405	224854	NA	61
19	BAYERISCHE HYPOTHEKEN- UND WECHSEL-BANK	407	6877	268	3	-11	1.2	NA	5.5	NA	356	194599	NA	61
20	VEREINIGTE ELEK. WESTFALEN	421	6497	325	37	18	5.3	30	2.3	5375a	125a	8258a	17.6	12
21	BANKGESELLSCHAFT BERLIN	422	6496	255	13	-2	1.1	NA	4.4	NA	81a	49918a	NA	61
22	THYSSEN	454	5914	189	13	-3	2.3	134	0.0	24734	38	15871	1.7	25
23	HENKEL	482	5610	384	3	11	2.4	16	2.9	9957	279	7422	14.9	44
24	DEUTSCHE LUFTHANSA	524	5141	135	23	6	2.2	LOSS	3.0	12548a	-71a	12321a	NEG	56
25	LINDE	551	4934	587	13	-3	1.9	24	2.6	5640	153	4507	8.3	38
26	SCHERING	574	4725	691	6	-9	2.2	21	2.3	3321	202	4811	10.6	45
27	PREUSSAG	588	4565	300	7	-8	2.1	24	3.4	16426	201	10230	9.0	71
28	HOCHTIEF	665	4132	590	7	-8	2.5	24	2.3	7401	92	5137	10.3	32
29	MAN	723	3827	266	7	-8	1.7	41	2.7	12841	106	12484	4.2	38
30	KARSTADT	787	3424	408	11	-4	1.9	17	3.2	13244a	161a	5456a	11.3	54
31	HEIDELBERGER ZEMENT	802	3338	834	8	-7	3.3	24	1.7	2229a	121a	3057a	13.9	21
32	AACHENER & MUNCHENER BET.	820	3253	694	-4	-18	1.6	46	2.0	NA	91*	2282*	3.4*	63
33	BEIERSDORF	845	3148	749	30	11	3.3	22	2.2	3647	143	2325	15.0	45
34	KAUFHOF	888	2991	335	6	-9	3.4	18	3.6	16315a	133a	4905a	19.4	54
35	FRIED. KRUPP AG HOESCH-KRUPP	912	2891	149	14	-2	2.1	NA	0.0	14511a	-439a	12471a	NA	25
36	ISAR-AMPERWERKE	959	2767	368	-5	-18	5.9	48	2.5	1495	50	3521	12.2	12
37	DEGUSSA	987	2683	313	3	-12	2.3	20	2.3	9778	109	5160	11.5	26
HONG KONG														
COUNTRY COMPOSITE			**159440**	**4**	**-3**	**-3**	**2.6**	**15**	**3.4**	**27232**	**10663**	**173772**	**16.8**	
1	HONG KONG TELECOMMUNICATIONS	71	23573	2	7	7	10.3	21	3.6	3479b	1125b	3866b	49.1	55
2	HUTCHISON WHAMPOA	104	18266	5	15	15	2.5	18	2.4	3900	1037	13719	14.0	71
3	SUN HUNG KAI PROPERTIES	118	16829	7	8	8	1.4	14	3.5	2299	1140	16561	9.9	64
4	HANG SENG BANK	144	14982	8	8	8	3.3	16	4.5	NA	959	39323	20.9	61
5	SWIRE PACIFIC	202	12252	8	-1	0	1.3	17	2.3	6157	719	17136	7.8	71
6	CHINA LIGHT & POWER	233	10886	5	-2	-2	5.2	19	2.9	1997	544	3820	26.7	12
7	CHEUNG KONG HOLDINGS	234	10824	5	-2	-2	1.9	8	2.9	1919	1307	8818	23.4	64
8	HENDERSON LAND DEVELOPMENT	288	9120	6	8	8	2.5	11	3.8	NA	781	7251	23.0	64
9	HONGKONG ELECTRIC HOLDINGS	384	7183	4	14	14	4.1	14	3.6	862	497	3416	28.2	12
10	WHARF (HOLDINGS)	389	7121	3	-23	-23	0.7	18	3.7	1053	401	15141	3.7	64
11	CITIC PACIFIC	513	5231	3	-10	-10	1.6	16	2.4	1569	332	4859	10.2	71
12	NEW WORLD DEVELOPMENT	534	5062	3	-3	-3	0.8	10	4.4	NA	555	9878	8.4	64
13	CATHAY PACIFIC AIRWAYS	660	4166	1	1	1	2.1	13	3.7	3518	309	6373	15.5	56
14	HONG KONG & CHINA GAS	682	4029	2	-8	-8	3.0	23	2.8	481	177	1685	13.4	12
15	HOPEWELL HOLDINGS	743	3696	1	-5	-5	1.3	13	4.4	NA	315	5732	9.8	64
16	WHEELOCK & CO.	760	3570	2	-28	-28	0.6	12	2.7	NA	285	5896	5.1	71
17	BANK OF EAST ASIA	995	2651	3	-26	-26	2.5	15	3.9	NA	180	10299	16.8	61
IRELAND														
COUNTRY COMPOSITE			**6209**	**5**	**27**	**15**	**1.8**	**14**	**2.7**	**2777**	**460**	**37815**	**14.0**	
1	ALLIED IRISH BANKS	842	3154	5	30	19	1.7	10	3.8	NA	326	34173	18.2	61
2	JEFFERSON SMURFIT GROUP	872	3056	6	23	12	1.9	19	1.7	2777	133	3642	9.9	23
ITALY														
COUNTRY COMPOSITE			**112262**	**6**	**-16**	**-13**	**1.9**	**36**	**1.7**	**82861**	**2250**	**615111**	**6.4**	
1	TELECOM ITALIA	85	20579	3	-3	0	1.7	24	2.4	17785	885	37733	7.0	55
2	ASSICURAZIONI GENERALI	96	19386	24	-6	-3	3.7	50	0.9	NA	391	53535a	7.4c	63
3	FIAT GROUP	117	16941	4	-8	-5	1.5	LOSS	0.0	33276a	-1088a	51225a	NEG	42
4	STET	161	14325	3	-16	-13	1.8	21	2.3	18165a	618a	43400a	8.2	55
5	ALLEANZA ASSICURAZIONI	416	6556	10	-11	-8	8.2	78	0.8	NA	86	6378a	10.4c	63
6	ISTITUTO NAZIONALE DELLE ASSICURAZIONI	493	5509	1	NA	NA	0.8	17	1.8	NA	320	22638a	4.7c	63
7	MONTEDISON	638	4243	1	-18	-15	1.7	LOSS	0.0	13127	-210	19741a	NEG	71
8	ISTITUTO BANCARIO SAN PAOLO DI TORINO	651	4197	6	-12	-9	0.8	18	2.6	NA	237	115229a	4.7c	61
9	ISTITUTO MOBILIARE ITALIANO	735	3737	6	-19	-16	0.9	11	3.9	NA	336	47071a	8.0c	61
10	RAS	745	3677	11	-28	-26	1.2	21	1.4	NA	199	13969a	5.5c	63
11	BANCA COMMERCIALE ITALIANA	751	3625	2	-19	-17	0.8	19	3.3	NA	201	91955	4.3	61
12	MEDIOBANCA	755	3597	8	-24	-22	1.6	27	1.6	NA	132*	16872*	5.8*	61
13	BANCO DI ROMA	851	3128	1	-34	-32	0.5	120	0.0	NA	25*	93110a*	0.4c*	61
14	EDISON	963	2762	4	-9	-6	2.2	20	2.7	508a	118a	2254a	10.9	12

NTRY K	GLOBAL 1000 RANK	MARKET VALUE U.S. $ MIL	PRICE PER SHARE U.S. $	% CHANGE FROM 1994 (U.S. $)	(LOCAL)	PRICE/ BOOK VALUE RATIO	P/E RATIO	YIELD %	SALES U.S. $ MIL	PROFITS U.S. $ MIL	ASSETS U.S. $ MIL	RETURN ON EQUITY %	INDUSTRY CODE
PAN													
UNTRY COMPOSITE		**2571054**	**17**	**–5**	**–23**	**2.2**	**116**	**1.0**	**3718342**	**33846**	**12392607**	**4.9**	
NIPPON TELEGRAPH & TELEPHONE	1	129009	8270	0	–19	2.2	131	0.7	79000	985	167120	1.7	55
TOYOTA MOTOR	7	72426	19	–4	–22	1.3	35	1.2	95930b	1559b	114096	3.6	42
MITSUBISHI BANK	8	68745	24	–11	–28	3.2	231	0.4	NA	298b	589814	1.4c	61
INDUSTRIAL BANK OF JAPAN	9	68339	29	–7	–25	4.1	195	0.3	NA	351b	501960	2.1c	61
FUJI BANK	10	66404	23	–1	–20	2.8	1209	0.4	NA	55b	651144	0.2c	61
SUMITOMO BANK	11	65311	21	–3	–22	2.5	LOSS	0.5	NA	–3353b	643392	NEG	61
SANWA BANK	12	62031	21	–2	–21	2.6	235	0.5	NA	264b	635277	1.1c	61
DAI-ICHI KANGYO BANK	15	58989	19	–1	–20	2.5	178	0.5	NA	331b	617308	1.4c	61
TOKYO ELECTRIC POWER	23	42410	32	3	–17	2.6	45	1.9	58780b*	947b*	152382*	5.7c*	12
SAKURA BANK	24	40155	12	–15	–31	1.9	152	0.8	NA	265b	633588	1.3c	61
BANK OF TOKYO	33	36058	18	11	–10	2.9	60	0.6	NA	598	295448	4.8	61
NOMURA SECURITIES	37	35250	18	–22	–37	1.7	159	0.7	NA	503	118701	1.1	62
MATSUSHITA ELECTRIC INDUSTRIAL	43	32458	15	–11	–28	0.8	30	1.0	82086b	1069b	96788	2.8c	41
HITACHI LTD.	45	32158	10	–6	–24	0.9	24	1.3	89695b	1346b	108000b	3.7	34
ASAHI BANK	52	28802	12	12	–9	2.3	134	0.7	NA	215b	319233	1.7c	61
SEVEN-ELEVEN JAPAN	53	27954	74	10	–11	6.8	43	0.6	15145*	550*	5238b*	15.6c*	54
KANSAI ELECTRIC POWER	60	25527	26	4	–16	2.0	72	2.2	29458b*	354b*	73295*	2.8c*	12
TOKAI BANK	61	25409	13	–4	–22	1.9	465	0.8	NA	55b	397625	0.4c	61
NIPPON STEEL	66	24745	4	0	–19	2.2	LOSS	0.8	34024b	–47b	51347	NEG	25
MITSUBISHI HEAVY INDUSTRIES	73	23125	7	–6	–24	1.7	25	1.4	33653b	920b	47458	7.0c	38
ITO-YOKADO	75	21948	53	3	–17	2.7	26	0.8	34011b	842b	18633	10.5c	54
LONG-TERM CREDIT BANK OF JAPAN	77	21853	9	–20	–35	1.6	261	1.0	NA	84b	381105	0.6c	61
MITSUBISHI TRUST & BANKING	82	21078	16	0	–19	2.0	112	0.6	NA	187b	199008	1.8c	62
EAST JAPAN RAILWAY	84	20604	5151	7	–14	3.0	27	1.1	28944b	774b	83347	11.2c	57
TOSHIBA	89	20269	6	–22	–37	1.5	38	1.9	56598b	528b	63213	4.0c	34
CHUBU ELECTRIC POWER	90	20228	27	9	–12	1.9	40	2.2	24085b*	510b*	64698*	4.8c*	12
JAPAN TOBACCO	98	18808	9404	NA	NA	1.3	23	0.8	41378b	821b	22357	5.7c	43
SONY	106	18023	48	–19	–34	1.1	LOSS	1.2	47020b	–3466b	50445	NEG	41
MITSUBISHI CORP.	108	17920	11	–3	–22	2.2	70	0.8	206344b	257b	103226	3.1c	59
TOKIO MARINE & FIRE	110	17729	11	–12	–29	2.6	53	0.8	14649b*	332b*	55955*	4.8c*	63
FUJITSU	114	17386	10	–9	–26	1.4	33	1.2	38487b	532b	42468	4.3c	33
SUMITOMO TRUST & BANKING	116	17050	14	–14	–30	1.7	362	0.7	NA	47b	183373	0.5c	62
SEIBU RAILWAY	121	16688	39	–6	–24	33.7	LOSS	0.2	6213	–107	13128	NEG	57
NEC	125	16388	11	–6	–24	1.8	39	1.1	44531b	417b	47726	4.5c	34
ALL NIPPON AIRWAYS	127	16260	11	7	–13	8.1	LOSS	0.3	10127	–111	16354	NEG	56
NISSAN MOTOR	128	16238	6	–23	–38	0.9	LOSS	1.3	68876b	–1962b	86575	NEG	42
SHARP	132	15781	14	–18	–33	1.6	30	1.0	19110b	526b	24009	5.4c	41
NIPPONDENSO	134	15714	18	–5	–24	1.6	36	1.0	16684	440	17577	4.4	37
DAIWA BANK	143	14996	10	–1	–20	2.0	768	0.8	NA	19b	207972	0.3c	61
DAIWA SECURITIES	147	14898	11	–36	–48	1.3	43	0.7	NA	343	63712	3.0	62
MITSUBISHI ELECTRIC	149	14835	7	5	–15	1.5	30	1.7	38406b	497b	39637	5.2c	34
MITSUBISHI ESTATE	156	14566	11	–5	–23	2.4	55	0.8	6603	267	30255	4.5	64
ASAHI GLASS	157	14555	12	6	–15	2.1	192	0.9	14660	206	19208	1.2	26
DDI	159	14414	6639	NA	NA	9.8	41	0.2	6030b	350b	5413	23.8c	55
HONDA MOTOR	160	14386	15	–18	–34	1.3	20	1.1	46856b	727b	34510	6.4c	42
KYOCERA	162	14202	76	18	–5	2.2	28	0.8	5890b	511b	8273	8.0c	35
TOHOKU ELECTRIC POWER	165	13941	28	10	–11	2.1	24	2.1	16817b*	584b*	38575*	8.9c*	12
KINKI NIPPON RAILWAY	171	13657	9	12	–9	5.2	276	0.7	10287	49	17131	1.9	57
KYUSHU ELECTRIC POWER	181	13312	28	13	–9	2.0	25	2.1	16086b*	527b*	44713*	8.0c*	12
NIKKO SECURITIES	185	13012	9	–33	–46	1.3	73	0.9	NA	179	42489	1.8	62
CANON	186	13003	16	–6	–24	1.4	35	0.9	22840	367	26308	4.0	33
JAPAN AIRLINES	196	12358	7	–2	21	3.5	LOSS	0.0	14846	–443	25394	NEG	56
FUJI PHOTO FILM	197	12342	24	11	–11	0.9	16	1.1	12603	753	20256	5.7	46
KAWASAKI STEEL	201	12254	4	–7	–25	2.1	LOSS	0.0	13586b	–308b	25570	NEG	25
MITSUI & CO.	204	12220	8	0	–19	2.2	39	1.1	201252b	308b	87321	5.6c	59
KIRIN BREWERY	206	12123	12	3	21	1.5	20	1.1	20067	617	17098	7.5	43
TOKYO GAS	212	11785	4	–18	–34	2.4	62	1.4	10747	191	17875	3.9	12
MITSUI TRUST & BANKING	213	11764	10	–22	–37	1.4	135	0.8	NA	87b	182434	1.1c	62
TAKEDA CHEMICAL INDUSTRIES	215	11691	13	15	–7	1.6	19	1.2	9117b	608b	12433	8.4c	45
DAI NIPPON PRINTING	217	11515	15	–15	–32	1.4	20	1.2	14059b	581b	14332	7.0c	52
BRIDGESTONE	220	11455	15	–4	–22	1.8	30	1.0	18844	376	20105	6.0	37
SHIZUOKA BANK	225	11311	14	6	–14	2.3	43	0.5	NA	262b*	90506*	5.3c*	61
TONEN	232	10999	17	14	–8	2.8	42	3.5	6782	260	8829	6.7	11
BANK OF YOKOHAMA	243	10552	9	3	–17	1.8	141	0.6	NA	75b	145178	1.3c	61
MITSUBISHI CHEMICAL	244	10509	5	–5	–24	2.2	LOSS	0.7	12725	–34	15906	NEG	22
FANUC	246	10377	43	0	–19	2.0	50	0.5	1669b	206b	5796	3.9c	35
SANKYO	247	10335	23	14	–8	2.8	23	0.8	6105	447	7159	12.2	45
ASAHI CHEMICAL INDUSTRY	252	10122	7	–8	–26	2.0	110	1.0	13644b	92b	14381	1.8c	22

SIEMENS

1908. That was then.

One of the favorites in The Great New York to Paris Race was a motor car named Protos. It was built by a company named Siemens.

COMPANY NAME	GLOBAL 1000 RANK	MARKET VALUE U.S. $ MIL	PRICE PER SHARE U.S. $	% CHANGE FROM 1994 (U.S. $)	% CHANGE FROM 1994 (LOCAL)	PRICE/BOOK VALUE RATIO	P/E RATIO	YIELD %	SALES U.S. $ MIL	PROFITS U.S. $ MIL.	ASSETS U.S. $ MIL	RETURN ON EQUITY %	INDUSTRY CODE
69 SANYO ELECTRIC	254	10000	5	-4	-22	1.2	75	1.2	19613	134	25883	1.6	41
70 KUBOTA	265	9659	7	2	-17	2.6	41	1.0	11979b	237b	14154	6.5c	38
71 SUMITOMO CORP.	266	9658	9	-10	-27	1.2	112	1.0	190797b	86b	59184	1.0c	59
72 NIPPON CREDIT BANK	270	9575	6	-2	-21	1.4	99	1.3	NA	97b	203303	1.4c	61
73 TOPPAN PRINTING	273	9500	14	0	-19	1.5	51	1.0	13357b	188b	12542	2.9c	52
74 CHUGOKU ELECTRIC POWER	274	9498	26	7	-13	2.1	36	2.3	11829b*	263b*	28155*	5.7c*	12
75 KAJIMA	277	9449	10	8	-13	2.1	655	1.1	23328	14	38895	0.3	32
76 OSAKA GAS	278	9408	4	-20	-35	2.1	54	1.6	8319	175	13473	3.9	12
77 SUMITOMO METAL INDUSTRIES	282	9327	3	1	-18	1.5	LOSS	0.0	15831b	-342b	26995	NEG	25
78 MURATA MFG.	289	9104	38	-6	-24	1.9	20	0.5	3750b	448b	5986	9.1c	35
79 MITSUI FUDOSAN	291	9087	11	-6	-24	1.3	75	0.9	15381	120	43433	1.7	64
80 NIPPON EXPRESS	292	9085	8	-19	-34	3.2	29	0.8	19933b	311b	13010	11.0c	57
81 TORAY INDUSTRIES	293	9073	6	-7	-25	1.7	76	1.3	10639b	119b	14000	2.2c	22
82 NKK	304	8867	3	-8	-26	1.8	LOSS	0.0	21265b	-452b	38086	NEG	25
83 DAIEI	305	8853	12	-27	-41	6.5	LOSS	1.6	38087b	-598b	19137	NEG	54
84 ITOCHU	307	8740	6	-12	-29	1.6	91	1.2	196940b	96b	76191	1.7c	59
85 MATSUSHITA ELECTRIC WORKS	309	8629	12	5	-15	1.5	42	1.3	12457	202	14267	3.6	21
86 SEKISUI HOUSE	311	8569	13	1	-18	1.1	18	1.7	14816b	481b	18020	6.2c	32
87 NINTENDO	313	8536	60	-1	-20	1.6	17	1.4	4911b	492b	6985	9.4c	46
88 SUMITOMO CHEMICAL	320	8296	5	7	-14	2.8	79	0.7	11559	105	16195	NEG	22
89 SUMITOMO ELECTRIC INDUSTRIES	322	8290	12	-23	-38	1.7	34	1.0	13232b	246b	13566	5.2c	37
90 YASUDA TRUST & BANKING	328	8172	7	-18	-33	1.3	152	1.1	NA	54b	112146	0.8c	62
91 JAPAN TELECOM	330	8168	19729	NA	NA	10.0	102	0.3	2962*	99*	4174*	9.8*	55
92 SHIMIZU	335	8011	10	12	-9	1.8	16	1.0	27228	516	35262	11.8	32
93 NIPPON OIL	336	7991	6	-11	-28	1.1	32	1.3	31307b	246b	31530	3.4c	11
94 MARUBENI	340	7957	5	-2	-21	1.5	65	1.3	176266b	123b	83400	2.4c	59
95 KOBE STEEL	342	7939	3	-5	-23	1.8	LOSS	0.0	14755	-99	28280	NEG	25
96 MITSUBISHI MOTORS	343	7939	9	-1	-20	1.5	53	1.0	40334b	149b	28529	2.9c	42
97 KOMATSU	346	7816	8	-16	-32	1.3	65	1.2	10856b	121b	16256	2.0c	38
98 CHIBA BANK	347	7811	10	8	-12	1.7	84	0.6	NA	93b*	99032*	2.0c*	61
99 NEW OJI PAPER	354	7733	10	5	-15	1.9	120	1.0	9211b	64b	11578	1.6c	23
100 DAIWA HOUSE INDUSTRY	365	7464	16	3	-16	1.5	16	1.3	11143	473	13837	9.4	32
101 TOSTEM	370	7389	34	3	-16	2.0	35	0.6	6194	212	6545	5.8	21
102 HACHIJUNI BANK	371	7373	13	11	-10	2.6	58	0.5	NA	126b*	63516*	4.4c*	61
103 AJINOMOTO	372	7359	11	-7	-25	1.7	53	1.0	8573b	138b	8667	3.2c	44
104 TOYO TRUST & BANKING	373	7345	9	-20	-36	1.3	104	0.9	NA	71b	93367	1.2c	62
105 YAMAICHI SECURITIES	376	7297	6	-32	-45	0.9	44	0.6	NA	167	44910	2.0	62
106 SHIKOKU ELECTRIC POWER	380	7268	26	8	-13	1.9	48	2.2	6074b*	152b*	16817*	4.0c*	12
107 KAO	382	7234	12	4	-16	1.9	26	1.1	9412b	280b	8443	7.3c	44
108 YAMANOUCHI PHARMACEUTICAL	383	7220	22	19	-4	1.6	15	1.1	4540b	469b	8247	10.6c	45
109 SECOM	385	7177	63	-1	-20	2.9	57	0.9	3095	125	4384	5.1	52
110 JOYO BANK	388	7125	9	3	-17	1.9	70	0.7	NA	102b*	85972*	2.7c*	61
111 TOKYU CORP.	391	7111	6	-14	-31	2.6	606	0.9	5419	12	17992	0.4	57
112 NIPPON PAPER INDUSTRIES	394	7059	7	11	-10	2.0	7875	1.1	11360	1	13360	0.0	23
113 NIPPON YUSEN	401	6991	6	-3	-22	2.5	96	0.8	10135	72	15080	2.7	58
114 JUSCO	410	6708	22	-1	-20	2.7	25	1.1	22233b	274b	12241a	NA	54
115 TOYO SEIKAN KAISHA	412	6673	33	15	-7	1.6	24	0.3	8920	282	7637	6.6	26
116 TAISEI	417	6553	6	-2	-21	1.4	22	2.2	26931	299	38413	6.4	32
117 SEKISUI CHEMICAL	424	6481	12	13	-9	1.4	26	1.1	11270	249	11028	5.4	21
118 TAISHO PHARMACEUTICAL	431	6376	19	-2	-21	2.1	20	1.3	2492b*	326b*	4029*	10.5c*	45
119 GUNMA BANK	446	6033	12	5	-15	2.3	63	0.5	NA	95b*	62084*	3.6c*	61
120 YASUDA FIRE & MARINE	450	6012	7	-15	-31	2.1	47	1.2	10410b*	128b*	40249*	4.5c*	63
121 TDK	452	5934	45	0	-19	1.3	39	1.3	5731b	154b	6650	3.5c	35
122 ONO PHARMACEUTICAL	456	5896	48	-4	-23	3.5	23	0.7	1431b*	260b*	2679*	15.5c*	45
123 SHIN-ETSU CHEMICAL	461	5829	18	-15	-31	1.9	18	0.5	6178b	317b	7097	10.1c	22
124 OHBAYASHI	474	5678	8	11	-10	1.7	48	1.2	19526	118	29463	3.5	32
125 HOKURIKU ELECTRIC POWER	477	5640	26	7	-14	1.7	41	2.3	5378*	99*	16474*	4.1*	12
126 SUMITOMO MARINE & FIRE	480	5614	8	-12	-29	2.0	46	1.0	6159b*	121b*	27417*	4.4c*	63
127 HOKKAIDO ELECTRIC POWER	481	5613	26	5	-15	2.0	21	2.3	6368b*	266b*	15531*	9.5c*	12
128 KDD	486	5604	87	-23	-38	1.5	42	0.7	3458b	134b	6715	3.5c	55
129 MITSUBISHI MATERIALS	494	5493	5	-8	-26	1.5	LOSS	1.2	12574	-33	16744	NEG	24
130 MARUI	496	5483	15	-11	-28	1.2	28	1.7	6270b	197b	8620	4.4c	54
131 ODAKYU ELECTRIC RAILWAY	497	5461	8	7	-13	3.4	147	0.8	6364	37	11543	2.3	57
132 TOBU RAILWAY	505	5377	6	-3	-22	3.1	265	0.9	3947	20	12637	1.2	57
133 RICOH	512	5235	8	-14	-31	1.3	24	1.5	12051b	220b	14629	5.3c	33
134 TOTO	515	5188	15	-12	-29	1.9	43	0.8	5371b	121b	5189	4.3c	21
135 ISHIKAWAJIMA-HARIMA HEAVY INDUSTRIES	522	5154	4	-18	-34	2.3	30	1.8	12088b	169b	16555	7.5c	38
136 HANKYU CORP.	523	5141	6	0	-19	2.4	136	0.5	4433	38	13473	1.8	57

	COUNTRY	GLOBAL 1000	MARKET VALUE U.S.	PRICE PER SHARE	% CHANGE FROM 1994		PRICE/ BOOK VALUE	P/E	YIELD	SALES U.S	PROFITS U.S	ASSETS U.S.	RETURN ON EQUITY	INDUSTRY
137	ASAHI BREWERIES	527	5118	12	8	-13	1.5	66	0.9	12706	77	21054	2.2	43
138	KAWASAKI HEAVY INDUSTRIES	531	5072	4	-18	-33	2.9	42	1.6	12646b	121b	14639	6.9c	38
139	MITSUI MARINE & FIRE	532	5071	7	-16	-32	2.0	48	1.2	7104b*	105b*	29458*	4.0c*	63
140	HOKURIKU BANK	539	5025	7	-1	-20	1.3	94	0.8	NA	53b	93927	1.4c	61
141	BANK OF FUKUOKA	541	5000	9	-9	-26	1.7	105	0.7	NA	48b*	74986*	1.6c*	61
142	TOYODA AUTOMATIC LOOM WORKS	547	4965	18	-1	-20	1.7	43	0.9	5539b*	116b*	4760*	3.9c*	38
143	TEIJIN	550	4939	5	-6	-24	1.3	213	1.4	6695b	23b	10613	0.6c	22
144	ROHM	554	4916	46	12	-10	1.9	18	0.5	2853b	268b	4294	10.7c	35
145	OMRON	557	4892	19	16	-6	1.6	34	0.8	5785b	144b	6523	4.6c	34
146	SHISEIDO	560	4870	12	6	-14	1.2	36	1.2	6384b	134b	6715	3.4c	45
147	TOKYO ELECTRON	562	4827	32	5	-15	2.8	80	0.6	2241	61	3180	3.5	35
148	KINDEN	572	4740	20	31	6	1.8	21	0.6	6623b*	229b*	7277*	8.6c*	32
149	ASHIKAGA BANK	578	4703	8	-1	-20	1.5	106	0.8	NA	44b*	78022*	1.4c*	61
150	EISAI	594	4528	18	0	-19	2.0	22	0.9	3052b	205b	4261	8.9c	45
151	KYOWA HAKKO KOGYO	597	4482	10	5	-15	2.4	36	0.8	4035	126	4832	6.7	45
152	SUZUKI MOTOR	598	4479	10	-25	-39	1.4	25	0.9	14495	180	9424	5.4	42
153	SONY MUSIC ENTERTAINMENT	605	4435	41	-27	-41	1.8	40	1.0	2258b	111b	3073	4.5c	46
154	YAMAZAKI BAKING	610	4398	20	0	-19	1.9	26	0.7	7364	169	4566	7.4	44
155	NISSHIN STEEL	611	4395	4	-3	-21	1.5	46	0.8	5069b	95b	7729	3.3c	25
156	SUMITOMO METAL MINING	612	4391	8	-14	-30	1.8	195	0.7	5277	22	7029	0.9	24
157	MITSUBISHI OIL	615	4369	10	4	-16	2.2	20	1.2	12972	172	9721	10.7	11
158	HITACHI ZOSEN	629	4298	4	-23	-37	3.7	54	1.7	6468b	80b	8173	6.8c	38
159	NAGOYA RAILROAD	646	4214	5	-2	-21	2.1	96	1.0	4117	43	12454	2.2	57
160	ISUZU MOTORS	647	4213	4	-14	-30	5.3	118	0.0	18872	36	16532	4.5	38
161	DAIICHI PHARMACEUTICAL	657	4177	15	2	-17	1.6	19	1.1	2903	156	5090	8.3	45
162	77 BANK	661	4159	11	16	-6	2.2	33	0.5	NA	128b*	50719*	6.7c*	61
163	HITACHI METALS	666	4123	12	8	-13	2.1	35	1.0	5084b	117b	5355	5.8c	25
164	GENERAL SEKIYU	670	4092	11	14	-8	2.9	31	2.7	6069b	132b	4183	9.2c	11
165	YAMATO TRANSPORT	674	4071	11	0	-19	1.9	32	1.3	7135b	127b	5252	5.9c	57
166	EBARA	679	4039	14	-7	-25	2.8	34	0.8	5208	118	5814	8.1	38
167	KEIO TEITO ELECTRIC RAILWAY	684	4021	6	11	-10	2.6	66	0.9	5057	61	6813	4.0	57
168	FUJISAWA PHARMACEUTICAL	685	4021	13	15	-7	1.6	28	0.7	3212	145	6045	5.8	45
169	YAMAGUCHI BANK	686	4017	20	14	-8	1.7	34	0.4	NA	118b*	52286*	5.1c*	61
170	MITSUKOSHI	688	3989	8	-13	-30	3.7	LOSS	0.9	12016b	-50b	6794	NEG	54
171	COSMO OIL	695	3955	6	-24	-38	2.0	26	1.5	18784b	154b	14639	7.8c	11
172	JAPAN ENERGY	702	3929	4	-16	-32	2.2	49	1.6	21304	81	18579	4.4	11
173	MATSUSHITA COMMUNICATION INDUSTRIAL	704	3911	21	-10	-27	1.6	49	0.7	6191b	81b	4188	3.4c	34
174	FAMILYMART	711	3874	49	-4	-22	3.7	37	0.6	5274*	102*	1593*	9.9*	54
175	MAZDA MOTOR	713	3872	4	-34	-47	0.9	LOSS	0.0	25873	-579	17955	NEG	42
176	OKI ELECTRIC INDUSTRY	718	3855	6	-1	-20	2.1	10	0.0	7762b	381b	8369	20.8c	34
177	SHOWA SHELL SEKIYU	726	3806	12	-17	-33	1.8	24	0.9	17957	161	10452	7.5	11
178	CHUGOKU BANK	728	3800	19	9	-12	1.5	23	0.4	NA	165b*	54066*	6.4c*	61
179	DAINIPPON INK & CHEMICALS	729	3784	5	-8	-25	1.7	61	1.5	10020	62	12639	2.8	22
180	SEGA ENTERPRISES	731	3763	37	-49	-59	2.0	62	1.2	4532b	60b	4244	3.3c	46
181	HIROSHIMA BANK	736	3734	6	-4	-23	1.4	81	1.0	NA	46b*	77312*	1.8c*	61
182	NIPPON FIRE & MARINE	747	3670	6	-16	-32	1.5	41	1.3	5040b*	90b*	23200*	3.8c*	63
183	FUJI ELECTRIC	759	3573	5	-5	-23	1.7	79	1.9	10116b	45b	9625	2.2c	34
184	NICHIDO FIRE & MARINE	774	3478	8	0	-19	1.8	40	1.0	4597b*	87b*	18876*	4.5c*	63
185	NANKAI ELECTRIC RAILWAY	775	3478	8	-11	-28	2.7	156	0.8	1922	22	7536	1.7	57
186	SAPPORO BREWERIES	779	3460	10	13	-8	2.1	89	0.8	7844	39	10963	2.4	43
187	KURARAY	785	3445	11	-3	-21	1.9	30	0.9	3866b	114b	5644	6.1c	22
188	NISSHO IWAI	788	3417	4	-12	-29	1.2	55	1.4	118383b	63b	55503	2.2c	59
189	NIKON	790	3413	9	-8	-26	2.1	LOSS	0.6	2909	-51	4457	NEG	46
190	SHOWA DENKO	799	3360	3	-8	-26	3.1	LOSS	0.0	5857	-336	8822	NEG	22
191	NIPPON MEAT PACKERS	804	3337	15	0	-19	1.5	20	1.3	8695	164	6100	7.2	44
192	FURUKAWA ELECTRIC	806	3326	5	-27	-41	1.4	88	1.4	7927b	38b	8354	1.6c	37
193	KEIHIN ELECTRIC EXPRESS RAILWAY	807	3320	7	3	-17	2.9	115	0.9	2880	29	7947	2.5	57
194	NISHI-NIPPON BANK	809	3316	8	11	-10	1.7	62	0.7	NA	53b*	50938*	2.7c*	61
195	NSK	810	3308	6	-16	-32	1.2	LOSS	1.2	4490	-17	7305	NEG	37
196	HOYA	811	3306	28	47	19	2.5	32	0.7	1790b	104b	2161	7.7c	45
197	NGK INSULATORS	812	3305	9	-10	-27	1.7	37	1.0	2672b	89b	4059	4.6c	37
198	SHIONOGI	815	3298	9	3	-17	1.4	25	0.9	4071	131	4180	5.6	45
199	MITSUI O.S.K. LINES	821	3253	3	-28	-42	2.1	LOSS	0.0	7191	-71	12258	NEG	58
200	NISSIN FOOD PRODUCTS	822	3252	24	-7	-25	1.5	40	1.2	3138b	82b	3228	3.8c	44
201	KUMAGAI-GUMI	829	3217	5	-2	21	0.8	LOSS	0.8	10978	-77	22174	NEG	32
202	KOKUYO	832	3196	24	4	-16	1.8	32	0.7	3432	101	3152	5.6	52
203	NISHIMATSU CONSTRUCTION	834	3195	12	0	-19	2.1	20	1.2	7362b*	159b*	8883*	10.5c*	32
204	UBE INDUSTRIES	840	3168	4	2	-18	3.3	LOSS	0.0	6917	-46	10503	NEG	26
205	NICHII	847	3145	11	-20	-36	1.2	LOSS	2.1	17559b	-61b	16122	NEG	54
206	NATIONAL HOUSE INDUSTRIAL	852	3128	18	5	-15	2.3	20	0.8	2882b	154b	2594	11.2c	32
207	PIONEER ELECTRONIC	855	3119	17	-37	-49	0.9	LOSS	1.7	6023b	-14b	5748	NEG	41
208	CANON SALES	858	3097	26	-17	-33	1.3	42	0.7	7205	74	5092	3.2	52

NTRY K		GLOBAL 1000 RANK	MARKET VALUE U.S $ MIL	PRICE PER SHARE U.S. $	% CHANGE FROM 1994 (U.S. $)	(LOCAL)	PRICE/ BOOK VALUE RATIO	P/E RATIO	YIELD %	SALES U.S $ MIL.	PROFITS U.S $ MIL	ASSETS U.S $ MIL	RETURN ON EQUITY %	INDUSTRY CODE
9	KYUSHU MATSUSHITA ELECTRIC	870	3063	17	–39	–51	1.6	100	1.0	3460b*	51b*	3054*	1.6c*	41
0	MATSUSHITA-KOTOBUKI ELECTRONICS INDUSTRIES	874	3045	19	–39	–51	1.5	30	0.8	5299b	100b	3366	4 9c	41
1	MABUCHI MOTOR	875	3045	65	–10	–27	2.0	20	0.5	1037	152	1749a	9.9c	34
2	AISIN SEIKI	876	3044	11	–10	–27	1.1	29	1.2	9299	106	6811	3.8	37
3	MITSUI TOATSU CHEMICALS	878	3037	4	–8	–25	1.7	LOSS	0.9	5376	–37	8819	NEG	22
4	TAKASHIMAYA	885	3002	14	4	–16	2.0	LOSS	0.7	14059b	–15b	9650a	NA	54
5	UNY	887	2997	16	9	–12	1.4	22	0.9	10290b	138b	6126b	6.4	54
6	BANYU PHARMACEUTICAL	889	2988	11	28	4	1.5	27	0.8	1524b*	110b*	2509*	5.6c*	45
7	ISETAN	894	2968	13	–20	–36	1.7	78	0.9	6486	38	6447	2.1	54
8	NIPPON LIGHT METAL	898	2949	5	–16	–32	1.6	LOSS	0.4	7174b	–60b	7636	NEG	24
9	HOKKAIDO TAKUSHOKU BANK	903	2927	3	–33	–46	0.7	91	1.9	NA	32b	129475	0.7c	61
0	HEIWA	907	2920	24	–9	–26	1.7	17	1.0	1313	174	2302	9.9	46
1	HITACHI CABLE	914	2891	8	–8	–25	1.5	30	1.4	4168b	98b	4118	4.9c	37
2	CHICHIBU ONODA CEMENT	917	2884	5	–13	–29	1.6	241	1.3	5804	10	8433	0.6	21
3	AMADA	920	2877	10	–9	–26	1.0	LOSS	0.4	1239	–55	3804	NEG	38
4	SUMITOMO FORESTRY	921	2876	16	–16	–32	2.2	24	0.7	8108b	119b	4325	9.3c	21
5	DAI-TOKYO FIRE & MARINE	928	2862	7	–10	–28	1.3	36	1.2	4971b*	80b*	17608*	3.7c*	63
6	SEIYU	930	2856	13	–4	–22	2.0	109	1.5	15713b	26b	18980	1.8c	54
7	NIPPON TELEVISION NETWORK	940	2828	223	–7	–25	1.9	80	0.5	2564	35	2181	2.4	51
8	KURITA WATER INDUSTRIES	941	2828	24	–1	–20	4.0	23	0.7	1621b	123b	1538	17.3c	38
9	TOKYO BROADCASTING SYSTEM	950	2789	16	–4	–22	1.4	102	0.6	2440b*	27b*	3445*	1.3c*	51
0	HINO MOTORS	952	2783	8	–12	–29	1.9	54	0.9	7582b*	51b*	4286*	3.6c*	38
1	TOKYO DOME	953	2781	17	–13	–29	3.1	LOSS	0.8	1361b	–5b	8158b	NEG	53
2	KONICA	954	2780	8	13	–8	1.4	56	1.5	5824	50	6280	2.4	46
3	KANDENKO	956	2778	15	–19	–34	1.7	20	0.7	6284b*	139b*	5248*	8.4c*	32
4	YAKULT HONSHA	961	2764	16	–2	–20	1.3	26	1.1	2249	107	2933	5.0	44
5	NISSHIN FLOUR MILLING	965	2761	12	–3	–22	1.7	43	0.6	4225b	64b	3000	3.9c	44
6	SEINO TRANSPORTATION	966	2758	18	7	–14	1.2	35	0.7	3596b	79b	4188	3.4c	57
7	VICTOR CO. OF JAPAN	971	2751	11	–23	–38	1.0	394	0.0	9064b	7b	6004	0.2c	41
8	CREDIT SAISON	974	2742	22	–11	–28	2.1	30	0.5	1017b*	91b*	7568*	7.0c*	62
9	NTN	975	2730	6	–10	–27	1.4	71	1.8	3374	39	5162	2.0	37
0	TOKYO STEEL MFG.	977	2729	17	–29	–42	1.2	LOSS	0.7	1657b*	–103b*	3206*	NEG	25
1	FUJITA KANKO	983	2697	22	1	–18	6.1	117	0.4	1165	23	1967	5.2	53
2	TOHO CO.	986	2686	172	–10	–27	2.1	34	0.7	1881b	79b	2696	6.3c	53
3	MITSUBISHI RAYON	988	2683	4	2	–17	1.8	127	0.7	3817b	21b	5041	1.4c	22
4	TOSOH	992	2668	4	18	–5	3.7	LOSS	0.0	3861	–263	6337	NEG	22
5	FUKUYAMA TRANSPORTING	997	2649	9	–18	–34	1.5	42	1.4	3066b*	63b*	2978*	3.6c*	57
6	MITSUBISHI WAREHOUSE & TRANSPORTATION	999	2640	16	6	–24	2.4	46	0.6	1868b	58b	3069	5.3c	52
ETHERLANDS														
UNTRY COMPOSITE			216400	75	30	12	4.7	14	3.0	284699	19296	906181	26.0	
1	ROYAL DUTCH PETROLEUM (1)	NR	66986	125	18	2	1.8	14	4.5	97848	6431	109233	12.9	11
2	UNILEVER NV (2)	NR	20120	126	20	3	3.9	13	3.1	45454	2386	27138	29.4	44
3	KONINKLIJKE PTT NEDERLAND	122	16639	36	NA	NA	2.0	13	4.0	11280	1286	16660	15.2	55
4	INTERNATIONALE NEDERLANDEN GROEP	141	15128	54	31	13	1.1	9	4.4	12856	1428	214436a	11.9c	62
5	PHILIPS ELECTRONICS	177	13470	40	43	23	1.7	9	2.0	38521	1294	30400	18.4	41
6	ABN AMRO HOLDING	219	11465	38	15	–1	1.0	9	5.4	NA	1287	318790	11.6	61
7	POLYGRAM	245	10496	58	40	20	6.9	23	0.9	5433	466	5034	30.6	46
8	AKZO NOBEL	308	8643	122	8	–7	2.2	10	3.6	14030	792	11366	21.4	22
9	AEGON	318	8350	81	54	33	1.7	11	3.8	8843	727	86629	15.0	63
0	ELSEVIER (4)	NR	7602	12	27	9	6.3	19	3.0	4644	716	7259	32.7	51
1	HEINEKEN	387	7132	142	45	25	2.6	19	1.6	6301	381	5634	13.9	43
2	WOLTERS KLUWER	491	5524	84	36	17	14.4	22	1.4	1728	246	1171	64.2	51
3	DORDTSCHE PETROLEUM	593	4537	135	30	11	32.2	25	4.1	NA	184	141	130.6	11
4	KONINKLIJKE AHOLD	662	4139	34	34	15	2.9	16	2.4	18306	259	5159	18.4	54
5	FORTIS AMEV (5)	NR	3898	54	37	18	1.1	10	4.4	NA	653	43871	11.8	63
6	HEINEKEN HOLDING	823	3249	130	51	29	2.4	20	1.7	NA	165	1401	12.0	43
7	KONINKLIJKE KNP BT	849	3137	31	20	3	1.8	13	2.0	8305	205	5786	14.2	23
8	DSM	867	3074	85	17	0	1.1	6	4.5	5671	332	6007	18.2	22
9	KLM ROYAL DUTCH AIRLINES	943	2810	31	12	–4	1.4	11	0.0	5478	58	10069	11.9	56
EW ZEALAND														
UNTRY COMPOSITE			15814	3	20	8	2.8	18	3.5	8941	1101	15977	15.8	
1	TELECOM CORP. OF NEW ZEALAND	362	7531	4	35	21	5.4	18	5.0	1887b	412b	3031b	29.7	55
2	CARTER HOLT HARVEY	619	4344	3	9	–3	1.5	15	2.4	1805b	296b	4541	10.2c	23
3	FLETCHER CHALLENGE	699	3938	3	17	5	1.5	21	3.1	5249	393	8405	7.5	23

*Always wear your safety belt.

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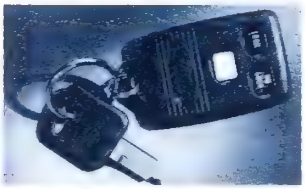

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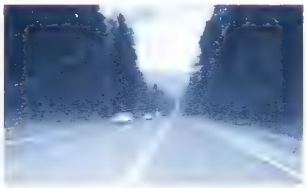

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ersonalized comfort from ilable 6-way power seats clusive 3-person memory.

100,000 miles of carefree driving before first recommended tune-up with standard V-6 engine.

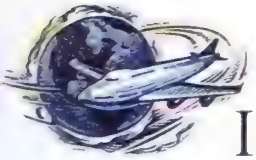
Introducing The New Ford Explorer Limited.

COUNTRY	GLOBAL 1000	MARKET VALUE U.S.	PRICE PER SHARE	% CHANGE FROM 1994		PRICE/ BOOK VALUE	P/E	YIELD	SALES U.S.	PROFITS U.S.	ASSETS U.S.	RETURN ON EQUITY	INDUSTRY
NORWAY													
COUNTRY COMPOSITE		**9399**	**41**	**24**	**9**	**2.2**	**14**	**1.6**	**11371**	**659**	**13490**	**15.4**	
1 NORSK HYDRO	279	9399	41	24	9	2.2	14	1.6	11371	659	13490	15.4	11
SINGAPORE													
COUNTRY COMPOSITE		**110776**	**8**	**5**	**5**	**3.1**	**24**	**1.6**	**20718**	**4808**	**161940**	**12.6**	
1 SINGAPORE TELECOMMUNICATIONS	48	31185	2	–10	–19	10.1	33	0.9	2523b	951b	4875b	30.8	55
2 SINGAPORE AIRLINES	203	12239	10	0	10	2.1	19	1.2	4707b	659b	7860	11.1c	56
3 OCBC OVERSEAS CHINESE BANK	235	10806	12	28	40	3.5	28	0.7	NA	386	28376	12.4	61
4 UNITED OVERSEAS BANK	295	9011	10	11	22	4.0	23	0.8	NA	409	24555a	17.7c	61
5 DEVELOPMENT BANK OF SINGAPORE	352	7762	12	1	11	2.2	20	0.7	NA	382	32424	10.9	61
6 JARDINE MATHESON HOLDINGS	471	5713	8	–4	–4	1.7	13	3.2	9559	453	11314	13.9	71
7 HONGKONG LAND HOLDINGS	489	5563	2	–29	–29	0.6	15	5.6	NA	366	10938	4.0	64
8 SINGAPORE PRESS HOLDINGS	507	5303	19	–4	6	5.9	25	0.8	551	210	1060	24.3	51
9 CITY DEVELOPMENTS	518	5176	7	45	32	4.1	36	0.6	NA	144	4050	11.4	64
10 KEPPEL	590	4555	9	29	18	2.8	30	0.7	1507	151	8017a	9.3c	38
11 OVERSEAS UNION BANK	697	3943	6	NA	NA	2.4	25	1.0	NA	157	15293	9.5	61
12 JARDINE STRATEGIC HOLDINGS	739	3720	4	–14	–14	0.7	10	4.1	NA	337	7755	7.6	71
13 DBS LAND	896	2959	3	9	–1	2.0	25	1.3	374	107	2684a	8.2c	64
14 FRASER & NEAVE	936	2841	12	0	–9	1.5	29	0.9	1497	96	2740	5.1	43
SPAIN													
COUNTRY COMPOSITE		**80402**	**41**	**6**	**–4**	**1.9**	**49**	**3.8**	**50950**	**6145**	**636024**	**12.7**	
1 ENDESA	194	12420	48	–1	–11	2.3	11	2.7	6615	1082	14242a	20.6c	12
2 TELEFONICA NACIONAL DE ESPANA	198	12330	13	–3	–13	1.0	13	4.1	12870	918	38795	7.9	55
3 REPSOL	264	9684	32	2	–7	2.3	11	3.5	19334	789	12407a	20.3c	11
4 BANCO BILBAO VIZCAYA	415	6560	29	23	11	1.2	11	4.9	NA	590	106393	11.4	61
5 IBERDROLA	426	6469	7	–5	–14	0.9	11	7.1	6150	551	27365a	8.1c	12
6 BANCO DE SANTANDER	448	6029	38	3	–7	1.4	11	5.7	NA	568	122573	12.3	61
7 ARGENTARIA, CORP. BANCARIA DE ESPANA	609	4404	35	–17	–25	0.9	8	6.0	NA	541	88531a	11.4c	61
8 BANCO POPULAR ESPANOL	624	4323	150	33	20	1.9	10	4.6	NA	445	26468	19.9	61
9 BANESTO	640	4235	7	8	–3	2.7	480	0.0	NA	–138	46271	0.6	61
10 GAS NATURAL SDG	677	4049	108	29	17	3.6	18	1.0	1738	194	2322a	19.9c	12
11 BANCO CENTRAL	734	3738	23	5	–5	0.8	14	4.5	NA	267	105556a	5.4c	61
12 PRYCA	772	3486	18	27	15	4.3	23	1.5	4241	148	2362a	18.4c	54
13 BANCO EXTERIOR DE ESPANA	989	2676	25	–20	–28	1.2	14	3.7	NA	189	42739a	8.3c	61
SWEDEN													
COUNTRY COMPOSITE		**95710**	**30**	**13**	**7**	**2.4**	**14**	**2.5**	**110954**	**7443**	**237408**	**18.3**	
1 ASTRA	107	17977	29	38	30	6.0	17	1.0	3818	926	4811	34.8	45
2 L. M. ERICSSON	136	15535	72	46	37	5.2	27	1.0	11246	538	9944	19.4	34
3 VOLVO	332	8156	18	–5	–11	1.4	5	2.6	21232	1802	18878	30.0	42
4 ASEA (3)	NR	7727	85	8	2	4.1	19	1.8	29718	760	29055	20.9	34
5 INVESTOR	498	5455	28	13	7	2.3	12	4.0	NA	383	11058	18.4	71
6 PHARMACIA	536	5052	20	21	14	2.1	11	1.8	3603	447	4428	19.0	45
7 SANDVIK	559	4875	18	17	10	2.4	12	2.9	3444	332	3864	19.7	25
8 STORA KOPPARBERGS BERGSLAGS	680	4021	63	14	7	1.2	14	2.2	6660	278	8270	8.7	23
9 SVENSKA CELLULOSA AKTIEBOLAGET	767	3515	18	21	14	1.4	24	2.8	4587	76	6120	5.8	23
10 ELECTROLUX	796	3382	46	–11	–16	1.3	11	3.7	14713	299	11468	11.2	41
11 SVENSKA HANDELSBANKEN	805	3330	15	3	–3	1.1	10	2.8	NA	327	54441	10.8	61
12 SKANDINAVISKA ENSKILDA BANKEN	906	2922	6	–14	–19	0.9	8	3.7	NA	407	55996	11.5	61
13 SKANSKA	935	2847	23	5	–10	2.8	8	2.3	3440a	124a	5901a	35.4	32
14 AGA	944	2808	12	32	25	2.9	16	2.6	1709	173	2587	17.6	22
15 SYDKRAFT	955	2780	15	20	13	1.6	16	2.9	1651	185	5376	10.4	12
16 ATLAS COPCO	990	2675	15	18	11	2.2	14	2.1	2849	121	2479	15.6	38
17 ASSIDOMAN	998	2645	22	7	1	1.7	8	2.0	2283	266	2732	21.4	23
SWITZERLAND													
COUNTRY COMPOSITE		**262624**	**1607**	**22**	**2**	**2.6**	**20**	**1.8**	**193286**	**14777**	**1148328**	**13.6**	
1 ROCHE HOLDING	14	60505	10792	18	–2	6.8	38	0.4	12632	2450	31035	17.9	45
2 NESTLE	25	39475	1009	23	3	2.9	14	2.3	48731	2784	38738	20.5	44
3 UNION BANK OF SWITZERLAND	59	25925	1012	19	–1	1.4	19	2.7	NA	1382	279549	7.3	61
4 SANDOZ	62	25404	684	33	11	4.7	17	1.5	13593	1485	16758	27.2	45
5 CIBA-GEIGY	92	19660	711	13	–6	1.6	12	2.0	18886	1639	27275	12.8	22
6 CS HOLDING	115	17280	467	8	–10	1.3	15	3.3	NA	1140	335159	8.5	61
7 SWISS BANK CORP.	175	13519	357	24	3	1.1	19	3.8	NA	695	181764	5.5	61
8 SWISS RE	238	10683	759	68	40	2.6	38	1.2	20342a	278a	55598a	6.9	63
9 ZURICH INSURANCE GROUP	241	10626	1168	22	2	1.2	18	1.8	19944	595	76546a	7.0c	63
10 BBC BROWN BOVERI (3)	NR	8972	1020	14	–5	3.6	19	1.7	29718	760	29055	18.8	34
11 COMPAGNIE FINANCIERE RICHEMONT	418	6541	1139	38	15	3.4	20	0.0	5822	321	4411	16.6	71
12 WINTERTHUR	502	5409	630	28	7	1.2	21	2.3	12625a	266a	49274a	5.9	63

THE BUSINESS WEEK GLOBAL 1000

	COUNTRY RANK	[illegible] RANK	MARKET VALUE U.S. $ MIL	PRICE PER SHARE U.S. $	% CHANGE FROM 1994 (U.S. $)	% CHANGE FROM 1994 (LOCAL)	PRICE/BOOK VALUE RATIO	P/E RATIO	YIELD %	SALES U.S. $ MIL	PROFITS U.S. $ MIL	ASSETS U.S. $ MIL	RETURN ON EQUITY %	INDUSTRY CODE
13	HOLDERBANK FINANCIERE GLARUS	567	4802	795	16	–3	1.6	14	1.7	NA	348	11293	11.9	21
14	S.M.H.	696	3954	570	–2	–18	2.4	14	1.3	2278	270	2525a	16.8c	46
15	ALUSUISSE-LONZA HOLDING	753	3603	588	25	4	2.5	20	2.2	6423	177	5394	12.3	24
16	SGS STE GENERALE DE SURVEILLANCE HOLDING	866	3078	1799	19	–1	3.8	18	2.4'	2290	177	2246	21.1	52
17	PHARMA VISION 2000	934	2850	3820	8	–10	2.2	NA	0.0	NA	11*	1706*	NA*	62
	UNITED STATES													
	COUNTRY COMPOSITE		3876300	105	19	19	3.9	24	2.4	3196183	232395	8284918	20.8	
1	GENERAL ELECTRIC	3	98245	58	17	17	3.8	16	2.8	60108	5915	251506a	23.5c	34
2	EXXON	4	88648	71	17	17	2.4	16	4.2	101459	5100	87862	15.1	11
3	AT&T	5	80299	51	–7	–7	4.4	16	2.6	75094	4710	79262	27.0	55
4	COCA-COLA	6	78629	62	53	53	15.0	30	1.4	16172	2554	13873	50.7	43
5	PHILIP MORRIS	13	61566	73	48	48	4.9	13	4.5	65125	4725	52649	38.1	43
6	MERCK	16	58125	47	54	54	5.3	19	2.6	14969	2997	21857	27.4	45
7	WAL-MART STORES	17	57138	25	6	6	4.5	21	0.8	82494b	2681b	32819b	21.5	54
8	INTERNATIONAL BUSINESS MACHINES	18	54002	93	48	48	2.4	15	1.1	64052	2965	81091	16.9	33
9	PROCTER & GAMBLE	19	49405	72	27	27	7.1	20	1.9	30296	2211	25535	35.9	44
10	MICROSOFT	20	49148	85	58	58	11.0	36	0.0	4649	1146	5363	30.4	52
11	INTEL	21	46359	112	80	80	5.0	17	0.2	11521	2588	13816	29.3	35
12	JOHNSON & JOHNSON	22	42662	66	49	49	6.0	20	2.0	15734	2006	15668	29.7	45
13	MOBIL	26	39402	100	23	23	2.4	30	3.7	66757	1759	41542	8.1	11
14	PEPSICO	30	38705	49	36	36	5.6	22	1.6	28472	1784	24792	26.1	43
15	GENERAL MOTORS	32	36127	48	–11	–11	2.7	7	2.5	150592	5659	198599	38.9	42
16	AMERICAN INTERNATIONAL GROUP (6)	34	35939	114	22	22	2.1	16	0.4	22386	2176	114346	13.1	63
17	DUPONT	36	35743	68	9	9	3.7	15	3.1	39333	2727	36892	24.1	22
18	MOTOROLA	38	35207	60	28	28	3.9	22	0.7	22245	1560	17536	17.8	35
19	AMOCO	40	33941	68	16	16	2.3	18	3.5	26048	1789	29316	13.2	11
20	BRISTOL-MYERS SQUIBB	41	33671	66	22	22	5.9	18	4.5	11984	1842	12910	33.5	45
21	HEWLETT-PACKARD	42	33637	66	68	68	3.4	17	1.2	24991	1599	19567	19.7	33
22	GTE	44	32210	33	8	8	3.1	14	5.6	19944	2289	42500	22.3	55
23	ABBOTT LABORATORIES	46	32120	40	34	34	7.9	21	2.1	9156	1517	8524	38.5	45
24	CHEVRON	47	32017	49	13	13	2.2	19	3.8	30340	1693	34407	11.4	11
25	BELLSOUTH	49	30338	61	3	3	2.1	14	4.5	16845	2160	34397	14.8	55
26	FORD MOTOR	50	29962	29	1	1	1.4	5	4.2	128439	5748	219354	26.4	42
27	WALT DISNEY	51	29082	56	28	28	5.3	23	0.6	10055	1110	12826	23.0	53
28	PFIZER	54	27879	88	38	38	6.4	20	2.4	8281	1298	11099	31.7	45
29	SBC COMMUNICATIONS	55	27409	45	9	9	3.3	16	3.7	11619	1649	26005	20.4	55
30	BERKSHIRE HATHAWAY (6)	56	26741	22700	41	41	2.3	55	0.0	3880	495	21338	4.1	71
31	McDONALD'S	58	26247	38	22	22	4.2	22	0.7	8321	1224	13592	19.3	53
32	FANNIE MAE	63	25304	93	11	11	3.1	12	2.9	NA	2141	216979a	26.8c	62
33	MINNESOTA MINING & MFG.	64	25188	60	18	18	3.7	18	3.1	15079	1322	13496	20.6	71
34	AMERITECH	67	24532	44	13	13	4.0	14	4.5	12569	1688	19947	28.6	55
35	BELL ATLANTIC	69	24208	56	4	4	4.0	17	5.0	13791	1402	24272	23.3	55
36	AMERICAN HOME PRODUCTS	74	22868	74	27	27	5.3	15	4.1	8966	1528	21675	35.5	45
37	SEARS, ROEBUCK	76	21910	57	12	12	2.2	12	2.8	54559	1244	91896	18.3	54
38	ELI LILLY	78	21786	75	30	30	4.1	18	3.5	5712	1185	14507	23.1	45
39	CITICORP	81	21137	54	35	35	1.6	7	2.2	NA	3422	250489	22.2	61
40	ELECTRONIC DATA SYSTEMS (4)	86	20502	43	20	20	4.6	24	1.2	9960	822	8787	19.3	52
41	EASTMAN KODAK	87	20467	69	29	29	5.1	31	2.6	13557	554	14968	16.5	46
42	DOW CHEMICAL	[illegible]	20299	73	7	7	2.5	15	4.1	20015	938	26545	16.7	22
43	BOEING	91	20076	59	27	27	2.1	27	1.7	21924	856	21463	7.7	31
44	BANKAMERICA	95	19492	52	7	7	1.2	9	3.5	NA	2176	215475	13.0	61
45	US WEST	97	19360	41	3	3	2.6	13	5.2	10953	1426	23204	19.8	55
46	ATLANTIC RICHFIELD	[illegible]	18696	116	15	15	3.0	18	4.7	15035	879	24563	16.5	11
47	HOME DEPOT	100	18690	42	–8	–8	6.6	31	0.4	12477b	605b	4701	21.5c	54
48	GILLETTE	101	18685	84	21	21	9.7	26	1.4	6070	698	5494	37.8	45
49	COLUMBIA/HCA HEALTHCARE	105	18057	41	3	3	3.1	22	0.3	14111a	699a	15818	14.1	52
50	TEXACO	[illegible]	17778	69	8	8	2.0	20	4.7	33353	979	25505	10.2	11
51	NYNEX	111	17632	[illegible]	11	11	2.1	14	5.7	13307	1245	30068	14.8	55
52	AMERICAN EXPRESS	112	17603	36	29	29	2.8	13	2.5	NA	1380	97006	22.0	62
53	VIACOM	119	16769	47	62	62	1.6	359	0.0	10122	112	28274	0.4	51
54	HUGHES ELECTRONICS (6)	126	16296	[illegible]	13	13	2.0	16	2.3	14062	1080	14851	12.8	31
55	CHRYSLER	131	16101	[illegible]	–12	–12	1.4	5	4.6	52224	3713	49539	30.4	42
56	SCHLUMBERGER	133	15745	[illegible]	14	14	3.4	28	2.3	6697	536	8322	12.3	36
57	NATIONSBANK	135	15654	[illegible]	2	2	1.4	9	3.5	NA	1690	169604	15.7	61
58	EMERSON ELECTRIC	138	15352	69	13	13	3.5	18	2.5	8607	904	8215	19.5	34
59	ANHEUSER-BUSCH	140	15212	59	9	9	3.4	15	2.7	12054	1032	11045	23.2	43
60	TIME WARNER	142	15052	40	2	2	13.1	LOSS	0.9	7396	–91	16716	NEG	51
61	ORACLE	145	14927	35	52	52	20.2	41	0.0	2001	284	1595	49.3	52
62	CAPITAL CITIES/ABC	148	14854	[illegible]	30	30	3.4	21	0.2	6379	680	6768	16.4	51
63	KELLOGG	150	14835	67	28	28	8.2	21	2.1	6562	705	4467	39.5	44
64	SCHERING-PLOUGH	155	14650	79	21	21	9.3	16	2.9	4657	922	4326	59.2	45

	COUNTRY	GLOBAL 1000	MARKET VALUE $B.	PRICE PER SHARE	% CHANGE FROM 1994		PRICE BOOK VALUE	P/E	YIELD	SALES U.S.	PROFITS U.S.	ASSETS U.S.	RETURN ON EQUITY	INDUST
65	SOUTHERN CO.	158	14536	22	20	20	1.8	14	5.5	8297	989	27042	12.9	12
66	TELE-COMMUNICATIONS	167	13875	21	1	1	4.1	LOSS	0.0	4936	55	18456	NEG	51
67	BANC ONE	169	13795	35	4	4	1.9	15	3.9	NA	1005	88923	12.9	61
68	MCI COMMUNICATIONS	170	13770	20	-16	-16	1.5	14	0.2	13338	963	16366	11.1	55
69	ALLSTATE	173	13587	34	15	15	1.6	7	2.6	17861	1640	61369	21.9	63
70	WMX TECHNOLOGIES	174	13527	27	0	0	3.0	18	2.2	10097	784	17539	16.3	52
71	TRAVELERS GROUP	178	13465	40	28	28	1.7	11	1.9	NA	1326	115297	15.7	62
72	SARA LEE	179	13401	28	30	30	4.0	54	2.4	15536	234	11665	7.5	44
73	J. P. MORGAN	182	13303	71	7	7	1.5	12	4.2	NA	1215	154917	11.9	61
74	AIRTOUCH COMMUNICATIONS	184	13189	27	12	12	4.0	130	0.0	1139	98	4077a	3.1c	55
75	PACIFIC GAS & ELECTRIC	192	12470	29	13	13	1.4	12	6.8	10447	1007	27809	12.1	12
76	FEDERAL HOME LOAN MORTGAGE	199	12326	68	17	17	2.4	13	1.8	NA	1027	106199	18.4	62
77	CAMPBELL SOUP	205	12183	49	33	33	6.1	18	2.5	6690	630	4992	34.9	44
78	CATERPILLAR	207	12077	60	13	13	4.1	11	1.7	14328	955	16250	36.2	38
79	XEROX	208	12017	113	13	13	2.9	16	2.6	15088	794	38585	17.5	33
80	ITT	210	11802	113	34	34	2.5	16	1.8	23620	852	100854	15.1	71
81	LOCKHEED MARTIN	211	11793	60	52	52	2.3	13	2.4	22915	1061	17819	17.3	31
82	CISCO SYSTEMS	214	11754	44	77	77	13.3	32	0.0	1243	315	1054	41.0	33
83	SPRINT	216	11669	34	12	-12	2.6	13	3.0	12662	884	14937	19.4	55
84	ALLIEDSIGNAL	221	11431	40	15	15	3.8	15	1.9	12817	759	11321	26.4	71
85	UNION PACIFIC	[illegible]	11417	55	-6	-6	2.2	12	3.1	7798	958	15942	19.1	57
86	PACIFIC TELESIS GROUP	224	11344	27	-12	-12	2.2	10	8.1	9235	1136	20139	21.7	55
87	CHEMICAL BANKING	225	11278	46	20	20	1.2	8	3.8	NA	1446	171423	15.4	61
88	H. J. HEINZ	227	11269	45	33	33	4.8	20	3.2	7047	603	6381	24.0	44
89	WARNER-LAMBERT	229	11188	83	18	18	6.1	16	3.1	6417	694	5533	38.9	45
90	COLGATE-PALMOLIVE	230	11119	77	34	34	7.9	20	2.1	7588	580	6142	39.7	44
91	GENERAL RE	231	11083	135	13	13	2.3	15	1.4	NA	665	29597	15.2	63
92	TEXAS INSTRUMENTS	236	10741	116	44	44	3.5	14	0.9	10315	691	6989	25.2	35
93	J. C. PENNEY	[illegible]	[illegible]	47	-8	-8	2.0	12	4.1	20380b	1057b	16202b	16.3	54
94	COMPUTER ASSOCIATES INTERNATIONAL	[illegible]	[illegible]	66	[illegible]	57	8.6	19	0.3	2623b	586b	2492	45.8c	52
95	COMPAQ COMPUTER	[illegible]	[illegible]	39	0	0	2.8	12	0.0	10866	867	6166	22.9	33
96	ROCKWELL INTERNATIONAL	[illegible]	[illegible]	46	28	28	3.0	15	2.4	11123	634	9861	20.4	37
97	INTERNATIONAL PAPER	256	9907	79	14	14	1.5	16	2.1	14966	432	17836	9.3	23
98	BAXTER INTERNATIONAL	258	9864	35	35	35	2.6	15	3.2	9324	596	10002	17.6	45
99	MAY DEPARTMENT STORES	260	9786	39	2	2	2.7	13	2.9	12223b	782b	8800	20.9c	54
100	KIMBERLY-CLARK	268	9612	60	6	6	3.7	18	3.0	7364	574	6716	21.0	45
101	AMGEN	[illegible]	[illegible]	73	56	56	7.5	36	0.0	1648	436	1994	25.0	45
102	RAYTHEON	[illegible]	[illegible]	78	24	24	2.4	13	1.9	10013	597	7395	18.4	31
103	ARCHER DANIELS MIDLAND	[illegible]	[illegible]	19	21	21	2.0	13	0.5	11374	484	8747	14.8	44
104	PHILLIPS PETROLEUM	276	9479	36	12	12	3.2	20	3.4	12211	484	11436	15.9	11
105	UNITED TECHNOLOGIES	281	9333	76	14	14	2.9	15	2.6	20801	585	15624	19.0	31
106	MONSANTO	283	9285	83	2	2	3.1	15	3.3	8272	622	8891	21.6	22
107	NORWEST	284	9206	28	6	6	2.6	11	3.0	NA	800	59316	23.4	61
108	ENRON	285	9186	37	20	20	3.4	19	2.2	8984	453	11966	17.4	12
109	NORFOLK SOUTHERN	[illegible]	[illegible]	69	8	8	[illegible]	13	3.0	4581	668	11588	14.6	57
110	MICRON TECHNOLOGY	[illegible]	[illegible]	49	164	164	8.7	16	0.4	1629	401	1530	54.2	35
111	WELLS FARGO	[illegible]	[illegible]	184	17	17	2.8	12	2.5	NA	841	52374	23.6	61
112	TENNECO	[illegible]	9010	48	0	0	3.1	13	3.3	12174	641	12542	23.8	71
113	WEYERHAEUSER	[illegible]	8998	44	5	5	2.1	14	3.6	10398	589	13007	15.5	23
114	DUN & BRADSTREET	[illegible]	8997	53	-9	-9	6.8	14	5.0	4896	630	5464	47.6	52
115	AUTOMATIC DATA PROCESSING	[illegible]	8974	62	17	17	5.2	23	1.1	2469	334	2706	22.2	52
116	AMP	301	8938	43	32	32	4.1	23	2.2	4027	369	3771	18.1	35
117	CPC INTERNATIONAL	[illegible]	8916	81	25	25	5.7	19	2.4	7425	482	5668	30.8	44
118	MEDTRONIC	[illegible]	8746	75	83	83	8.3	30	0.5	1742b	294b	1623	28.1c	45
119	PPG INDUSTRIES	[illegible]	[illegible]	60	11	11	3.4	15	2.8	6331	515	5894	22.7	22
120	DUKE POWER	312	[illegible]	40	15	15	1.9	14	4.7	4279	639	12862	13.6	12
121	FIRST UNION	[illegible]	8413	49	5	5	1.6	10	3.8	NA	925	77314	16.4	61
122	ALUMINUM CO. OF AMERICA	[illegible]	8310	47	32	32	2.1	10	1.9	9904	143	12353	20.1	24
123	MERRILL LYNCH	[illegible]	8271	47	21	21	1.7	11	2.2	NA	1017	163749	15.0	62
124	McDONNELL DOUGLAS	324	8245	72	80	80	2.2	14	1.1	13176	598	12216	16.0	31
125	GENERAL MILLS	[illegible]	[illegible]	52	16	16	7.1	16	3.6	[illegible]	470	[illegible]	44.1	44
126	CHASE MANHATTAN	[illegible]	8186	46	23	23	1.2	[illegible]	3.9	NA	1205	[illegible]	13.6	61
127	TEXAS UTILITIES	[illegible]	[illegible]	36	[illegible]	9	1.3	10	8.5	5664	543	20893	12.5	12
128	AMERICAN BRANDS	333	[illegible]	[illegible]	24	24	1.8	13	5.0	13147	[illegible]	9794	13.1	43
129	DEAN WITTER, DISCOVER	[illegible]	8123	48	22	22	2.3	11	1.3	NA	741	27662a	21.8c	62
130	CSX	[illegible]	[illegible]	76	0	0	2.1	11	2.3	9608	652	13724	18.7	57
131	LIMITED	[illegible]	[illegible]	22	26	26	[illegible]	18	1.8	7321b	448b	4135	18.0c	54
132	SCECORP	348	7781	17	24	24	1.3	11	5.8	8345	681	22390	11.4	12
133	RJR NABISCO HOLDINGS	351	7765	29	-1	-1	0.8	14	5.3	15366	764	31408	5.7	43
134	BANK OF NEW YORK	358	7618	41	38	38	1.8	10	3.1	NA	749	48879	18.4	61
[illegible]	CONAGRA	360	7540	33	16	[illegible]	3.4	17	2.5	23512	437	10722	20.1	44
[illegible]	DEERE	363	7482	87	24	24	2.9	11	2.5	7663	604	12781	27.5	38



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COUNTRY RANK		GLOBAL 1000 RANK	MARKET VALUE U.S $ MIL	PRICE PER SHARE U.S. $	% CHANGE FROM 1994 (U.S. $)	(LOCAL)	PRICE/ BOOK VALUE RATIO	P/E RATIO	YIELD %	SALES U.S $ MIL	PROFITS U.S. $ MIL	ASSETS U.S $ MIL	RETURN ON EQUITY %	INDUSTR CODE
137	GANNETT	364	7478	54	1	1	4.1	16	2.5	3825	465	3707	25.4	51
138	KEYCORP	374	7331	31	–6	–6	1.6	9	4.7	NA	853	66798	17.5	61
139	FPL GROUP	375	7323	39	24	24	1.7	13	4.5	5423	519	12618	13.2	12
140	CORNING	377	7296	32	–3	–3	3.2	42	2.8	4771	150	6023	7.7	41
141	OCCIDENTAL PETROLEUM	378	7288	23	19	19	2.3	72	4.3	9236	–36	17989	3.2	11
142	PUBLIC SERVICE ENTERPRISE GROUP	379	7280	30	7	7	1.4	11	7.3	5916	679	16717	12.4	12
143	UNOCAL	381	7234	30	7	7	3.1	28	2.7	7072	300	9337	11.1	11
144	CHUBB	386	7158	82	2	2	1.7	12	2.4	3776	528	20723	13.9	63
145	ALBERTSON'S	390	7112	28	0	0	4.2	16	1.9	11895b	417b	3622b	25.6	54
146	NOVELL	393	7089	19	9	9	4.7	11	0.0	1998	207	1963	42.9	33
147	GEORGIA-PACIFIC	395	7045	78	21	21	2.7	14	2.6	12738	326	10728	19.4	23
148	TOYS 'R' US	396	7035	25	–29	–29	2.1	14	0.0	8746b	532b	6571b	14.6	54
149	LOEWS	397	7014	119	34	34	1.3	24	0.8	13515	268	50336	5.3	71
150	BROWNING-FERRIS INDUSTRIES	398	7004	36	23	23	2.9	20	1.9	4315	284	5797	14.4	52
151	AMERICAN GENERAL	399	7004	35	27	27	2.0	14	3.6	1210	513	46295	15.0	63
152	CONSOLIDATED EDISON CO. OF NEW YORK	400	7002	30	8	8	1.3	10	6.8	6373	734	13728	13.4	12
153	MARION MERRELL DOW	402	6987	25	43	43	3.3	17	4.0	3060	438	4100	20.1	45
155	CARNIVAL	406	6892	23	–1	–1	3.4	17	1.3	1806	382	3670	19.9	53
154	NABISCO HOLDINGS (6)	405	6923	26	NA	NA	2.3	51	0.0	7699	267	11886	4.6	44
156	AETNA LIFE & CASUALTY	408	6717	60	10	10	1.2	12	4.6	11292	468	94173	10.6	63
157	SUNTRUST BANKS	411	6673	58	18	18	2.3	13	2.5	NA	523	42709	18.1	61
158	LIN BROADCASTING	414	6603	124	14	14	21.5	54	0.0	876	95	2924	39.6	55
159	SCOTT PAPER	419	6539	43	81	81	3.7	19	0.9	3581	269	5626	19.5	45
160	WACHOVIA	423	6484	38	15	15	2.0	12	3.5	NA	539	39188	16.8	61
161	APPLIED MATERIALS	425	6476	77	77	77	6.7	23	0.0	1660	221	1703	29.1	35
162	UNITED HEALTHCARE	428	6438	37	23	–23	2.3	21	0.0	3769	288	3489	10.8	52
163	DOMINION RESOURCES	430	6401	37	6	–6	1.4	14	6.9	4491	478	13562	9.8	12
164	GOODYEAR TIRE & RUBBER	432	6361	42	9	9	2.3	11	2.4	12300	567	9123	20.8	37
165	AMERICAN ELECTRIC POWER	433	6356	34	19	19	1.5	13	7.0	5505	500	15713	11.7	12
166	PNC BANK	434	6344	27	12	–12	1.5	12	5.2	NA	610	62080a	12.2c	61
167	FIRST INTERSTATE BANCORP	435	6343	84	5	5	2.0	9	3.6	NA	734	55813	22.0	61
168	DIGITAL EQUIPMENT	436	6319	45	101	101	1.9	LOSS	0.0	13451	–2105	10580	NEG	33
169	UPJOHN	437	6298	36	13	13	3.0	13	4.1	3275	489	5162	24.0	45
170	MELLON BANK	438	6291	43	10	10	1.7	17	4.7	NA	433	38644	10.1	61
171	PECO ENERGY	440	6233	28	3	3	1.4	16	5.8	4041	427	15093	9.0	12
172	FIRST DATA	441	6216	58	23	23	6.1	30	0.2	NA	208	5419	20.5	52
173	HERCULES	443	6123	53	49	49	4.7	20	1.6	2821	274	2941	23.6	22
174	W. R. GRACE	444	6045	64	54	54	4.0	21	2.2	5093	283	6231	19.5	22
175	AIR PRODUCTS & CHEMICALS	449	6025	53	26	26	2.7	23	2.0	3485	234	5036	11.9	22
176	WALGREEN	453	5923	48	18	18	3.8	19	1.6	9235	282	2909	19.3	54
177	UST	458	5859	30	18	18	16.2	15	4.4	1198	388	741	105.4	43
178	KMART	459	5852	13	–15	–15	1.0	28	3.8	34313b	260b	17029b	3.6	54
179	MARSH & McLENNAN	462	5829	80	–8	–8	4.0	16	3.6	NA	382	3831	25.7	63
180	UNICOM	465	5798	27	9	9	1.1	14	5.9	6278	355	23121	7.5	12
181	NIKE	467	5774	79	34	34	3.3	16	1.3	3790	299	2374	20.2	46
182	ENTERGY	469	5737	25	–14	–14	0.9	12	7.3	6018	420	22877a	7.5c	12
183	MORGAN STANLEY GROUP	470	5732	76	27	27	1.5	16	1.7	NA	434b	116694b	9.4	62
184	USX-MARATHON GROUP	472	5708	20	16	16	1.8	20	3.4	12757	321	10951	8.9	11
185	GENENTECH	473	5688	48	1	1	4.2	45	0.0	795	124	1745	9.3	45
186	ILLINOIS TOOL WORKS	475	5669	50	22	22	3.7	19	1.2	3461	278	2580	19.7	37
187	HOUSTON INDUSTRIES	476	5646	43	33	33	1.7	13	7.0	4002	454	12294	12.9	12
188	FIRST BANK SYSTEM	478	5633	42	11	11	2.2	18	3.5	NA	307	26219	12.1	61
189	PACIFICORP	484	5609	20	12	12	1.6	13	5.5	3507	468	11846	12.2	12
190	PITNEY BOWES	485	5606	37	–5	5	3.2	16	3.2	3271	348	7400	20.2	52
191	R. R. DONNELLEY & SONS	487	5588	37	33	33	2.8	21	1.8	4889	269	4452	13.8	52
192	RHONE-POULENC RORER	490	5531	41	24	24	3.5	13	2.9	4175	472	4363	26.5	45
193	MATTEL	492	5523	25	18	18	5.1	22	1.0	3205	256	2459	23.2	46
194	INTERNATIONAL FLAVORS & FRAGRANCES	495	5490	49	28	28	5.4	23	2.5	1315	226	1400	23.6	22
195	BURLINGTON NORTHERN	499	5454	61	10	10	2.9	12	2.0	4995	426	7592	23.1	57
196	SILICON GRAPHICS	501	5412	39	70	70	6.1	30	0.0	1482	141	1519	20.1	33
197	CIGNA	504	5382	75	9	9	0.9	9	4.1	13912	554	86102	10.3	63
198	CNA FINANCIAL	508	5284	86	29	29	1.2	20	0.0	9474	37	44320	5.9	63
199	WM. WRIGLEY JR. (6)	510	5253	45	–12	–12	7.2	25	2.2	1597	231	979	28.7	44
200	BURLINGTON RESOURCES	511	5250	42	1	1	2.0	53	1.3	1055	154	4809	3.9	11
201	NBD BANCORP	516	5182	33	11	11	1.6	9	4.0	NA	547	47111	16.9	61
202	WESTINGHOUSE ELECTRIC	517	5177	15	12	12	2.9	1450	1.4	8848	77	10624	0.2	34
203	TEXTRON	519	5174	61	9	9	1.8	12	2.6	9683	433	20925	14.7	71
204	AMR	520	5161	68	23	23	1.6	13	0.0	16137	402	19486	12.3	56
205	FIRST CHICAGO	521	5156	57	9	9	1.3	8	3.8	NA	690	65900	16.1	61
206	TRW	526	5119	79	18	18	2.8	14	2.5	9087	333	5636	20.7	37
207	RUBBERMAID	529	5091	32	14	14	4.0	22	1.6	2170	228	1709	18.0	41
208	DURACELL INTERNATIONAL	530	5085	43	3	3	4.4	23	2.4	1871	200	2286	19.5	46

NTRY	GLOBAL 1000 RANK	MARKET VALUE U.S. $ MIL	PRICE PER SHARE U.S. $	% CHANGE FROM 1994 (U.S. $)	(LOCAL)	PRICE/ BOOK VALUE RATIO	P/E RATIO	YIELD %	SALES U.S. $ MIL	PROFITS U.S. $ MIL	ASSETS U.S. $ MIL	RETURN ON EQUITY %	INDUSTRY CODE
9 DAYTON HUDSON	533	5069	71	10	-10	1.7	13	2.5	21311b	434b	11697b	12.7	54
9 HONEYWELL	537	5045	40	26	26	2.7	18	2.5	6057	279	4886	15.2	34
RALSTON PURINA GROUP	538	5027	50	47	47	14.8	30	2.4	5759	231	3791	49.4	44
2 MBNA	540	5014	34	28	28	5.5	18	2.5	NA	267	9672	30.4	62
3 APPLE COMPUTER	543	4988	42	42	42	2.1	12	1.2	9189	231	5303	17.4	33
4 EASTMAN CHEMICAL	544	4988	60	25	25	3.9	12	2.7	4329	336	4375	32.0	22
5 U. S. HEALTHCARE	545	4979	31	-23	-23	5.5	13	3.2	2877	391	1464	43.5	52
6 GAP	548	4947	34	-21	-21	3.6	16	1.4	3723b	320b	2004b	22.2	54
7 SYSCO	549	4946	27	5	5	4.0	20	1.6	10942	217	2812	19.6	44
8 CENTRAL & SOUTH WEST	552	4933	26	16	16	1.6	11	6.7	3623	412	10909	15.0	12
9 BANKERS TRUST NEW YORK	556	4899	63	-11	-11	1.1	20	6.4	NA	615	97016	5.7	61
0 CORESTATES FINANCIAL	563	4818	33	24	24	2.0	9	4.1	NA	416	29325	21.6	61
GENUINE PARTS	564	4813	39	13	13	3.2	16	3.2	4858	289	2029	19.1	37
2 BARNETT BANKS	568	4800	50	8	8	1.6	10	3.8	NA	488	41278	16.3	61
3 HOUSEHOLD INTERNATIONAL	570	4770	49	45	45	2.2	13	2.6	NA	368	34338	16.2	62
4 EATON	571	4766	61	11	11	2.8	13	2.6	6052	333	4682	22.2	37
5 READER'S DIGEST ASSOCIATION	573	4737	42	0	0	6.0	23	3.8	2806	272	2049	26.2	51
6 AMERADA HESS	575	4720	51	3	3	1.5	81	1.2	6699	33	8338	1.9	11
7 FLEET FINANCIAL GROUP	576	4709	35	-9	-9	1.6	9	4.6	NA	613	48757	17.9	61
8 QUAKER OATS	579	4676	35	4	4	10.5	10	3.3	5955	232	3043	107.9	44
9 CAROLINA POWER & LIGHT	580	4672	30	23	23	1.8	14	5.9	2877	313	8211	12.7	12
9 MORTON INTERNATIONAL	582	4655	32	16	16	3.3	17	1.4	2850	227	2463	19.9	22
AVON PRODUCTS	583	4654	67	14	14	25.0	18	3.0	4267	265	1978	142.0	45
2 ALLTEL	584	4629	25	-6	-6	2.9	15	3.9	2962	304	4714	19.0	55
3 NATIONAL CITY	585	4613	30	8	8	1.9	11	4.2	NA	429	32114	17.1	61
4 EMC	587	4580	23	36	36	6.3	18	0.0	1377	251	1318	35.6	35
5 HERSHEY FOODS	599	4478	52	20	20	3.1	16	2.5	3606	264	2891	18.8	44
6 HALLIBURTON	601	4454	39	28	28	2.3	22	2.6	5741	178	5268	10.2	36
7 ARCO CHEMICAL	604	4444	46	-1	-1	2.7	13	5.4	3423	269	3737	21.1	22
8 MASCO	608	4414	29	5	5	2.2	16	2.5	4468	273	4021a	13.5c	21
9 UNION CARBIDE	613	4385	29	8	8	3.1	8	2.6	4865	389	4689a	38.3c	22
0 FIRST FINANCIAL MANAGEMENT (6)	614	4372	71	27	27	3.1	27	0.1	2204	160	3136	11.5	62
MARRIOTT INTERNATIONAL	616	4356	34	20	20	5.7	21	0.8	8415	200	3207	26.7	53
2 DETROIT EDISON	617	4346	30	17	17	1.3	11	6.9	3519	420	10993	11.7	12
3 SALOMON	620	4333	41	-20	-20	1.2	LOSS	1.6	NA	-399	172732	NEG	62
4 CHAMPION INTERNATIONAL	622	4326	46	42	42	1.5	22	0.4	5318	63	8964	6.7	23
5 ST. PAUL	626	4310	51	31	31	1.4	9	3.1	NA	443	17149a	15.4c	63
6 FIRST FIDELITY BANCORPORATION	628	4302	53	15	15	1.6	10	3.8	NA	451	36216	16.1	61
7 BOSTON SCIENTIFIC	630	4298	29	NA	NA	7.7	63	0.0	680	124	780	12.3	45
8 PROMUS	631	4291	42	10	10	6.9	51	0.0	1339	86	1738	13.5	53
9 LINCOLN NATIONAL	632	4275	45	9	9	1.6	14	3.8	4444	350	49330	11.1	63
9 WINN-DIXIE STORES	634	4256	57	27	27	4.0	19	2.7	11082	216	2147	21.6	54
LOWE'S	635	4256	27	-14	-14	4.6	19	0.7	6111b	224b	2202	24.7c	54
2 3COM	636	4255	64	172	172	14.8	42	0.0	827	-29	444	35.2	33
3 CONRAIL	637	4246	54	-2	-2	1.5	6	2.8	3733	375	8322	24.3	57
4 DSC COMMUNICATIONS	641	4228	37	66	66	4.9	25	0.0	1003	163	1269	20.0	34
5 WHIRLPOOL	642	4227	57	7	7	2.5	12	2.4	7949	354	6655	21.1	41
6 COOPER INDUSTRIES	643	4225	37	2	2	1.5	17	3.6	4588	293	6401	9.3	36
7 SUN MICROSYSTEMS	644	4223	45	116	116	2.6	14	0.0	4690	196	2898	18.0	33
8 FREEPORT-McMORAN COPPER & GOLD (6)	645	4222	21	-17	-17	10.0	39	2.9	1212	130	3040	25.9	24
9 DRESSER INDUSTRIES	648	4206	23	1	1	3.3	12	3.0	5307	362	3642a	27.3c	36
9 CROWN CORK & SEAL	649	4200	47	30	30	3.1	31	0.0	4452	131	4781	9.8	26
MELVILLE	650	4199	40	-2	-2	2.1	16	3.8	11286	307	4735	13.0	54
2 WORLDCOM (6)	653	4192	26	42	42	2.2	LOSS	0.0	2221	-122	3430	NEG	55
3 AFLAC	654	4185	42	25	25	2.4	14	1.2	5181	293	20287	17.1	63
4 FEDERATED DEPARTMENT STORES	655	4184	23	5	5	1.3	16	0.0	8316b	188b	7419	7.8c	54
5 COMCAST	656	4177	17	-3	-3	-5.7	LOSS	0.5	1375	-75	6763	NEG	51
6 BOATMEN'S BANCSHARES	658	4171	33	-3	-3	1.5	10	4.2	NA	355	28927	15.6	61
7 NUCOR	659	4170	48	-29	-29	3.7	16	0.6	2976	227	2002	23.1	25
8 TRANSAMERICA	663	4134	60	12	12	1.7	11	3.3	NA	428	40393	15.8	62
9 CINERGY (6)	664	4132	27	17	17	1.7	21	6.5	2924	227	8150	8.2	12
0 CUC INTERNATIONAL	668	4118	37	26	26	14.5	37	0.0	1045b	118b	613	39.4c	52
1 CBS	669	4108	67	28	28	14.8	21	0.6	3712	282	2160	71.0	51
2 FLUOR	673	4084	50	-3	-3	3.3	20	1.2	8485	192	2825	16.8	38
3 TURNER BROADCASTING SYSTEM (6)	675	4065	20	4	4	49.0	69	0.4	2809	46	4073	71.6	51
4 COX COMMUNICATIONS (6)	676	4063	16	NA	NA	2.2	NA	0.0	708	77	1527	NA	51
5 BECTON, DICKINSON	678	4041	58	51	51	2.8	17	1.4	2559	227	3160	16.5	45
6 BAY NETWORKS	683	4026	37	36	36	7.7	36	0.0	1086	121	818	21.5	35
7 LORAL	687	3990	48	34	34	2.9	14	1.3	5484b	288b	5176	20.4c	31
8 ROHM & HAAS	689	3985	59	-3	-3	2.7	15	2.5	3534	264	3861	18.1	22
9 GREAT LAKES CHEMICAL	691	3977	61	11	11	3.1	15	0.7	2065	279	2111	20.9	22
0 TRIBUNE	692	3977	60	1	1	4.0	42	1.9	2155	242	2786	9.5	51

COUNTRY RANK		GLOBAL 1000 RANK	MARKET VALUE U.S. $ M	PRICE [illegible] $	CHANGE FROM [illegible] (U.S. $)	(LOCAL)	PRICE/BOOK VALUE RATIO	P/E RATIO	YIELD %	SALES U.S. $ M	PROFITS U.S. $ M	ASSETS U.S. $ M	RETURN ON EQUITY %	INDUSTRY CODE
281	ENGELHARD	693	3970	42	55	55	6.5	33	1.3	2386	118	1441	19.8	22
282	AON	700	3931	37	10	10	1.8	11	3.7	1934	360	17922	15.4	63
283	INGERSOLL-RAND	701	3930	37	6	6	2.6	17	2.0	4507	211	3597	14.7	38
284	NEWELL	703	3926	25	10	10	3.5	20	1.9	2075	196	2488	17.8	41
285	BANK OF BOSTON	705	3906	37	30	30	1.5	10	3.0	NA	442	44630	15.1	61
286	NEWMONT GOLD	706	3895	40	0	0	5.2	63	1.2	597	83	1657	8.2	81
287	PHELPS DODGE	707	3889	55	-1	-1	1.8	7	3.3	3289	271	4134	25.0	24
288	EQUITABLE	709	3881	21	-7	-7	1.5	13	0.9	626	324	94640	11.4	63
289	ENRON OIL & GAS (6)	710	3880	24	10	10	3.7	26	0.5	572	148	1862	14.3	11
290	AMERICAN STORES	712	3874	26	5	5	1.8	11	2.1	18356c	345b	7082c	17.1	54
291	UNION ELECTRIC	714	3868	38	13	13	1.7	13	6.4	2056	331	6625	13.5	12
292	ALCO STANDARD	715	3868	72	23	23	3.3	34	1.5	7996	71	3502	9.7	52
293	COMERICA	716	3859	32	5	5	1.5	9	4.4	NA	387	33430	16.3	61
294	LSI LOGIC (6)	717	3857	68	181	181	7.1	29	0.0	902	109	1270	24.4	35
295	SAFEWAY (6)	719	3854	37	[illegible]	59	6.4	17	0.0	15627	250	5022	38.5	54
296	TYCO INTERNATIONAL	720	3846	54	14	14	2.8	19	0.7	3263	125	3136	14.5	71
297	BALTIMORE GAS & ELECTRIC	722	3836	26	14	14	1.4	14	6.0	2783	335	8144	10.0	12
298	CABLETRON SYSTEMS	725	3811	64	35	35	9.0	24	0.0	811b	162c	499	38.2c	35
299	H&R BLOCK	727	3803	36	-15	-15	5.4	16	3.5	1240	201	1075	33.0	52
300	GENERAL INSTRUMENT	730	3771	31	0	0	5.6	15	0.0	2036	248	2109	36.8	35
301	GEICO	732	3766	55	5	5	2.6	18	2.0	2476	209	4998	16.0	63
302	PANHANDLE EASTERN	737	3727	25	26	26	1.8	18	3.6	4585	225	6731a	10.0c	12
303	DOVER	738	3723	66	24	24	3.7	17	1.6	3085	202	2071	22.0	71
304	CONSOLIDATED NATURAL GAS	740	3709	40	6	6	1.7	21	4.9	3036	183	5519	8.0	12
305	SAFECO	742	3698	59	7	7	1.3	11	3.6	2330	314	15902	11.4	63
306	McGRAW-HILL	746	3676	74	12	12	4.0	18	3.2	2761	203	3009	22.2	51
307	UNION CAMP	750	3632	52	10	10	2.0	17	3.2	3396	117	4777	11.5	23
308	SANTA FE PACIFIC	752	3616	25	96	96	3.7	28	0.4	2681	199	5573	13.2	57
309	NEWMONT MINING	756	3594	40	1	1	5.3	65	1.1	620	76	1657	8.2	81
310	OFFICE DEPOT	759	3585	24	4	4	5.0	32	0.0	4266	105	1904	15.5	54
311	FRANKLIN RESOURCES (6)	761	3558	44	18	18	3.4	15	0.9	844	251	1738	23.5	62
312	SHAWMUT NATIONAL (6)	763	3542	19	20	20	1.7	17	3.0	2251	237	32399	10.0	61
313	PROVIDIAN	765	3528	36	16	16	1.7	10	2.5	1141	353	23613	16.7	63
314	DOW JONES	766	3527	37	0	0	2.4	19	2.5	2091	181	2446	12.3	51
315	SALLIE MAE	771	3492	48	20	20	3.2	10	3.1	NA	412	52961	31.5	61
316	FIFTH THIRD BANCORP (6)	776	3472	53	-2	-2	2.3	14	2.6	1178	244	14957	17.3	61
317	GENERAL PUBLIC UTILITIES	781	3454	30	6	6	1.3	11	6.3	3650	355	9210	11.9	12
318	PRAXAIR	786	3433	25	22	22	4.1	15	1.3	2711	203	3520	26.5	22
319	VF	789	3417	53	8	8	2.0	12	2.6	4972	275	3336	17.6	47
320	NORDSTROM	791	3413	42	-6	-6	2.5	17	1.2	3894b	203b	2397b	14.8	54
321	HUMANA	792	3408	21	3	3	3.2	19	0.0	3576	159	1957	17.1	52
322	AUTOZONE (6)	793	3397	23	-15	-15	5.8	28	0.0	1508	116	882	20.9	54
323	ADVANCED MICRO DEVICES	797	3374	33	22	22	1.8	9	0.0	2135	341	2446	19.2	35
324	SUN	798	3369	32	8	8	1.8	70	5.7	7702	90	6465	2.6	11
325	FEDERAL EXPRESS	800	3344	60	-22	-22	1.8	12	0.0	8479	204	5992	15.0	52
326	OHIO EDISON	803	3337	22	25	25	1.4	11	6.9	2368	304	8994	13.1	12
327	PIONEER HI-BRED INTERNATIONAL	808	3318	39	14	14	3.8	17	1.7	1479	213	1253	22.0	26
328	TENET HEALTHCARE	813	3302	1	2	2	2.1	LOSS	0.0	2967	466	3697	NEG	52
329	DELTA AIR LINES	817	3286	65	43	43	2.2	LOSS	0.3	12359	-409	11896	NEG	56
330	COASTAL	819	3273	31	11	11	1.4	17	1.3	10215	233	10535	8.1	11
331	DILLARD DEPARTMENT STORES	820	3240	29	-7	-7	1.4	13	0.4	5546b	236c	4578b	10.8	54
332	TYSON FOODS (6)	827	3226	22	4	4	2.4	203	0.4	5110	-2	3668	1.2	44
333	HILTON HOTELS	830	3203	47	20	20	3.0	25	1.8	1506	111	2675a	12.3c	53
334	CLOROX	833	3194	60	17	17	3.5	16	3.2	1837	180	1694	21.4	44
335	MEAD	835	3189	54	20	20	1.5	23	2.1	4557	90	4863	6.3	23
336	ADOBE SYSTEMS	837	3180	52	81	81	7.0	34	0.4	598	80	626	20.3	52
337	NORTHERN STATES POWER	838	3176	47	16	16	1.7	14	5.6	2487	243	5954	12.2	12
338	SOUTHWEST AIRLINES	839	3166	22	21	21	2.6	22	0.2	2592	179	2823	11.8	56
339	BAKER HUGHES	841	3141	23	13	13	2.1	24	2.0	2505	131	3000	8.9	36
340	WISCONSIN ENERGY	846	3146	29	14	14	1.8	14	5.1	1742	181	4408	12.7	12
341	SHERWIN-WILLIAMS	853	3123	37	17	17	3.0	17	1.7	3100	187	1060	17.7	22
342	HARCOURT GENERAL	854	3122	42	14	14	3.1	32	1.5	3164	98	3242	9.7	71
343	FOOD LION (6)	856	3114	7	16	16	3.0	20	1.5	7933	151	2488	15.2	54
344	REYNOLDS METALS	857	3103	49	8	8	1.7	24	2.4	5879	66	7461	7.3	24
345	WILLIAMS	859	3096	34	21	21	2.2	17	3.2	1751	165	5226	13.1	11
346	UNUM	860	3096	43	-9	-9	1.6	11	2.5	2732	289	13127	14.2	63
347	HASBRO	862	3088	35	7	7	2.2	18	0.9	2670	179	2378	12.3	46
348	VASTAR RESOURCES (6)	863	3088	32	NA	NA	106.5	24	0.9	1658	149	1604	435.9	11

NTRY	GLOBAL 1000 RANK	MARKET VALUE U.S. $ MIL	PRICE PER SHARE U.S. $	% CHANGE FROM 1994 (U.S. $)	(LOCAL)	PRICE/ BOOK VALUE RATIO	P/E RATIO	YIELD %	SALES U.S. $ MIL	PROFITS U.S. $ MIL	ASSETS U.S. $ MIL.	RETURN ON EQUITY %	INDUSTRY CODE
9 NATIONAL SEMICONDUCTOR	868	3070	25	29	29	2.8	12	0.0	2295	259	1748	22.6	35
0 W. W. GRAINGER	877	3039	60	–8	–8	2.9	17	1.5	3023	178	1535	17.6	34
1 CHARLES SCHWAB	879	3035	35	74	74	6.4	23	0.7	NA	135	7918	28.3	62
2 FLORIDA PROGRESS (6)	880	3034	32	19	19	1.5	14	6.3	2772	222	5719	11.3	12
3 PREMARK INTERNATIONAL (6)	881	3029	50	41	41	3.5	14	1.6	3451	226	2358	24.6	71
4 PP&L RESOURCES	883	3011	19	–13	–13	1.2	14	8.7	2725	394	9372	8.7	12
5 MOLEX (6)	884	3006	37	23	23	2.9	26	0.1	964	95	1139	11.1	35
6 NORTHEAST UTILITIES	890	2983	24	5	5	1.3	9	7.4	3629a	246a	10585	NA	12
7 GREEN TREE FINANCIAL (6)	893	2976	44	48	48	3.8	16	0.9	497	181	1772	24.2	62
8 ALLEGHENY POWER SYSTEM	895	2967	25	17	17	1.4	13	6.6	2452	220	6362	11.0	12
9 WASHINGTON POST	897	2952	265	14	14	2.7	16	1.7	1614	170	1697	16.2	51
0 GREAT WESTERN FINANCIAL	901	2938	22	18	18	1.3	15	4.2	NA	222	42218	8.8	61
1 CINCINNATI FINANCIAL (6)	904	2925	55	12	12	1.5	14	2.5	1513	201	4734	10.9	62
2 KNIGHT-RIDDER	905	2922	55	–2	–2	2.4	17	2.7	2649	171	2447	14.2	51
3 IVAX (6)	908	2919	26	36	36	4.4	31	0.3	1135	90	1107	13.9	45
4 TELLABS (6)	913	2891	33	87	87	8.8	36	0.0	494	72	390	24.7	55
5 KROGER	915	2886	26	9	9	–1.3	11	0.0	22959	269	4708	NA	54
6 WELLPOINT HEALTH NETWORKS (6)	916	2886	29	–6	–6	1.9	14	0.0	2792	213	2386	14.0	52
7 KERR-McGEE	918	2882	56	24	24	1.9	24	2.7	3353	90	3698	7.8	11
8 WESTVACO	923	2871	43	33	33	1.5	15	2.6	2607	104	3983	10.0	23
9 GOLDEN WEST FINANCIAL	924	2871	49	24	24	1.4	14	0.7	NA	230	31684	10.4	61
0 INTERPUBLIC GROUP	926	2865	37	13	13	4.4	19	1.7	1984	141	3793	22.7	52
1 CIRCUS CIRCUS ENTERPRISES	927	2865	33	44	44	4.2	21	0.0	1170b	136b	1507b	19.9	53
2 DANA	929	2859	28	10	10	3.0	12	3.3	6614	228	5111	25.4	37
3 COMPUTER SCIENCES	931	2855	53	22	22	3.3	25	0.0	3373b	111b	1806	13.1c	52
4 TORCHMARK	932	2852	40	–5	–5	2.3	11	2.8	1389	269	8404	21.0	63
5 WHEELABRATOR TECHNOLOGIES	937	2841	15	–17	–17	2.0	15	0.7	1325	185	3282	12.9	52
6 SONAT	938	2839	33	15	15	2.0	19	3.3	1774	161	3531	10.7	12
7 MALLINCKRODT GROUP	947	2801	36	22	22	2.8	24	1.5	1940	107	2434	11.4	22
8 PARKER HANNIFIN	948	2796	57	32	32	2.8	15	1.9	2576	52	1913	19.3	38
9 INFORMIX (6)	949	2790	42	163	163	9.3	39	0.0	469	66	444	23.7	52
0 BLACK & DECKER	951	2784	33	78	78	2.7	22	1.2	5248	127	5434	12.5	46
1 THERMO ELECTRON (6)	958	2772	36	45	45	2.8	25	0.0	1585	103	3020	11.2	35
2 WILLAMETTE INDUSTRIES (6)	960	2766	50	11	11	1.9	11	2.2	3008	178	3033	16.6	23
3 COCA-COLA ENTERPRISES	964	2762	21	30	30	2.1	35	0.2	6011	69	8738	6.0	43
4 GENERAL DYNAMICS	967	2756	44	3	3	2.1	12	3.4	3058	223	2673	17.2	31
5 STATE STREET BOSTON	969	2752	34	–17	–17	2.1	12	1.9	NA	207	21729	16.8	61
6 PRICE/COSTCO	970	2751	14	7	7	1.8	25	0.0	16481	111	4236	7.4	54
7 MGIC INVESTMENT (6)	972	2745	47	69	69	3.1	16	0.3	510	160	1476	18.8	62
8 PROGRESSIVE (6)	978	2728	38	12	12	2.4	10	0.6	2407	274	4675	23.4	63
9 TANDY	979	2724	47	25	25	2.1	16	1.5	4944	224	3244	12.9	54
0 MIRAGE RESORTS (6)	980	2719	30	52	52	2.6	18	0.0	1254	125	1641	14.3	53
1 SERVICE CORP. INTERNATIONAL (6)	981	2715	29	17	17	2.3	18	1.5	1117	131	5162	12.4	52
2 REEBOK INTERNATIONAL	982	2712	34	6	6	2.7	11	0.9	3280	254	1649	24.9	46
3 REPUBLIC NEW YORK	984	2697	51	8	8	1.4	9	2.8	NA	340	41068	15.8	61
4 FIRST USA (6)	991	2675	47	6	6	4.1	19	0.3	727	101	5491	21.3	62
5 H. F. AHMANSON	993	2664	23	21	21	0.9	15	3.9	NA	237	53726	6.2	61
6 CIRCUIT CITY STORES	994	2653	28	42	42	3.0	16	0.4	5583b	168b	2004b	18.9	54

Y TO INDUSTRY CODES Left-hand digit represents broad economic sector as defined by Morgan Stanley Capital International. Right-hand digit is ustry classification code within each economic sector

ENERGY
1. Energy sources
2. Utilities-electrical & gas

MATERIALS
21. Building materials & components
22. Chemicals
23. Forest products & paper
24. Metals-nonferrous
25. Metals-steel
26. Misc. materials & commodities

CAPITAL EQUIPMENT
31. Aerospace & military technology
32. Construction & housing
33. Data processing & reproduction
34. Electrical & electronics
35. Electronic components & instruments
36. Energy equipment & services
37. Industrial components
38. Machinery & engineering

4. CONSUMER GOODS
41. Appliances & household durables
42. Automobiles
43. Beverages & tobacco
44. Food & household products
45. Health & personal care
46. Recreation, other consumer goods
47. Textiles & apparel

5. SERVICES
51. Broadcasting & publishing
52. Business & public services
53. Leisure & tourism
54. Merchandising
55. Telecommunications
56. Transportation-airlines
57. Transportation-road & rail
58. Transportation-shipping
59. Wholesale & international trade

6. FINANCE
61. Banking
62. Financial services
63. Insurance
64. Real estate

7. OTHER
71. Multi-industry
81. Gold mines


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ALPHABETICAL LIST OF COMPANIES

The number preceding each company is its Global 1000 rank. The code following each company shows its nationality and rank within that nation. To find the statistics for a company, turn to the country listing and look for the company by its rank.

A

[illegible]
5 AT&T (US-3)
[illegible]
315 Axa (FR-[illegible])

B

[illegible]
416 Banco Bilbao Vizcaya (SP-4)
[illegible]
357 Bayerische Vereinsbank (GE-18)
[illegible]
349 Boots (BR-37)
[illegible]
733 Bowater (BR-72)
[illegible]
15 Bankok Kangyo Bank (JA-8)
[illegible]
147 Daiwa Securities (JA-40)
[illegible]
929 Dana (US-372)
[illegible]

C

[illegible]
79 Sr Abuzaare (FR-[illegible])
[illegible]

E

[illegible]

F

[illegible]
614 First Financial Management (US-240)
[illegible]
991 First USA (US-394)
[illegible]
888 Florida Progress (US-352)
[illegible]
50 Ford Motor (US-26)
778 Fortis (BR-79)
[illegible]
936 Fraser & Neave (SI-[illegible])
[illegible]
114 Fujitsu (JA-31)
[illegible]

G

[illegible]
473 Generacion (US-185)
602 General Accident Fire & Life (BR-62)
[illegible]
3 General Electric (US-1)
[illegible]
231 General Re (US-91)
[illegible]
564 [illegible]
[illegible]
500 Granada Group (BR-51)
[illegible]

H

[illegible]
862 Hasbro (US-347)
[illegible]
288 Henderson Land Development (HK-9)
[illegible]
736 Hiroshima Bank (JA-[illegible])
[illegible]
391 Hong Kong & China Gas (HK-14)
[illegible]

I

[illegible]
949 Infiniti (US-379)
[illegible]
522 Ishikawajima-Harima Heavy Inds. (JA-135)
[illegible]
735 Istituto Mobiliare Italiano (IT-9)
[illegible]

J

[illegible]
471 Jardine Matheson [illegible]
739 Jardine Strategic [illegible]
[illegible]

K

[illegible]
486 KDD (JA-128)
[illegible]

nberly-Clark (US-100)
nden (JA-148)
ngfisher (BR-56)
nki Nippon Railway (JA-48)
in Brewery (JA 56)
M Royal Dutch Airlines (NE-19)
nart (US-178)
ngnt R der (US-362)
be Steel (JA-95)
kuyo (JA-202)
matsu (JA 97)
nica (JA-232)
ninklijke Ahold (NE-14)
ninklijke KNP BT (NE-17)
ninklijke PTT Nederland (NE-3)
edietbank (BE-8)
ger (US-365)
upp (Fried.) AG Hoesch-Krupp (GE-35)
bota (JA-70)
magai-Gumi (JA-201)
raray (JA-187)
nta Water Industries (JA-228)
ocera (JA-46)
owa Hakko Kogyo (JA-151)
ushu Electric Power (JA-49)
ushu Matsushita Electric (JA-209)

dbroke Group (BR-84)
arge (FR-20)
nd Securities (BR-55)
gal & General Group (BR-70)
grand (FR-27)
nd Lease (AS-14)
y (Eli) (US-38)
nited (US-131)
N Broadcasting (US-158)
coln National (US-249)
de (GE-25)
yds Abbey Life (BR-66)
yds Bank (BR-21)
ckheed Martin (US-81)
ews (US-149)
ng-Term Credit Bank of Japan (JA-22)
ral (US-277)
we's (US-251)
I Logic (US-294)
MH Möet Hennessy (FR-2)
onnaise des Eaux-Dumez (FR-21)

bucht Motor (JA-211)
allinckrodt Group (US-377)
AN (GE-29)
nnesmann (GE-13)
rion Merrell Dow (US-153)
rks & Spencer (BR-11)
rriott International (US-241)
rsh & McLennan (US-179)
rubeni (JA-94)
rui (JA-130)
sco (US-238)
tsushita Communication Industrial (JA-173)
tsushita Electric Industrial (JA-13)
tsushita Electric Works (JA-85)
tsushita-Kotobuki Electronics (JA-210)
ttel (US-193)
y Department Stores (US-99)
zda Motor (JA-175)
BNA (US-212)
Donald's (US-31)
cDonnell Douglas (US-124)
cGraw-Hill (US-306)
CI Communications (US-68)
ead (US-335)
dtronic (US-118)
ellon Bank (US-170)
elville (US-261)
erck (US-6)
errill Lynch (US-123)
GIC Investment (US-387)
chelin (FR-23)
cron Technology (US-110)
crosoft (US-10)
nnesota Mining & Mfg. (US-33)
rage Resorts (US-390)
tsubishi Bank (JA-3)
tsubishi Chemical (JA-65)
tsubishi Corp. (JA-29)
tsubishi Electric (JA-41)
tsubishi Estate (JA-42)
tsubishi Heavy Industries (JA-20)
tsubishi Materials (JA-129)
tsubishi Motors (JA-96)
tsubishi Oil (JA-157)
tsubishi Rayon (JA-243)
tsubishi Trust & Banking (JA-23)
tsubishi Warehouse & Trans. (JA-246)
tsui & Co. (JA-55)
tsui Fudosan (JA-79)
tsui Marine & Fire (JA-139)
tsui O. S. K. Lines (JA-199)
tsui Toatsu Chemicals (JA-213)
tsui Trust & Banking (JA-58)
tsukoshi (JA-170)
bil (US-13)
olex (US-355)
onsanto (US-106)
ontedison (IT-7)

182 Morgan (J. P.) (US-73)
470 Morgan Stanley Group (US-183)
582 Morton International (US-230)
38 Motorola (US-18)
146 Münchener Rück (GE-8)
289 Murata Mfg. (JA-78)

N

405 Nabisco Holdings (US-154)
646 Nagoya Railroad (JA-159)
775 Nankai Electric Railway (JA-185)
209 National Australia Bank (AS-3)
585 National City (US-233)
852 National House Industrial (JA-206)
275 National Power (BR-30)
868 National Semiconductor (US-349)
153 National Westminster Bank (BR-16)
135 NationsBank (US-57)
886 Navigation Mixte (Compagnie de) (FR-42)
516 NBD Bancorp (US-201)
125 NEC (JA-34)
25 Nestle (SWI-2)
354 New Oji Paper (JA-99)
534 New World Development (HK-12)
910 Newbridge Networks (CA-22)
703 Newell (US-284)
706 Newmont Gold (US-286)
756 Newmont Mining (US-309)
152 News Corp. (AS-2)
812 NGK Insulators (JA-197)
774 Nichido Fire & Marine (JA-184)
847 Nichiei (JA-205)
467 Nike (US-181)
185 Nikko Securities (JA-50)
790 Nikon (JA-189)
313 Nintendo (JA-87)
270 Nippon Credit Bank (JA-72)
292 Nippon Express (JA-80)
747 Nippon Fire & Marine (JA-182)
898 Nippon Light Metal (JA-218)
804 Nippon Meat Packers (JA-191)
336 Nippon Oil (JA-93)
394 Nippon Paper Industries (JA-112)
66 Nippon Steel (JA-19)
1 Nippon Telegraph & Telephone (JA-1)
940 Nippon Television Network (JA-227)
401 Nippon Yusen (JA-113)
134 Nippondenso (JA-38)
834 Nishimatsu Construction (JA-203)
809 Nishi-Nippon Bank (JA-194)
128 Nissan Motor (JA-36)
965 Nisshin Flour Milling (JA-235)
611 Nisshin Steel (JA-155)
788 Nissho Iwai (JA-188)
822 Nissin Food Products (JA-200)
304 NKK (JA-82)
168 Nokia (FI-1)
37 Nomura Securities (JA-12)
607 Noranda (CA-16)
791 Nordstrom (US-320)
287 Norfolk Southern (US-109)
279 Norsk Hydro (NO-1)
773 North West Water Group (BR-77)
890 Northeast Utilities (US-356)
838 Northern States Power (US-337)
263 Northern Telecom (CA-3)
284 Norwest (US-107)
639 Nova Corp. (CA-18)
393 Novell (US-146)
690 Novo-Nordisk (DE-4)
810 NSK (JA-195)
975 NTN (JA-239)
659 Nucor (US-267)
111 Nynex (US-51)

O

235 OCBC Overseas Chinese Bank (SI-3)
378 Occidental Petroleum (US-141)
497 Odakyu Electric Railway (JA-131)
758 Office Depot (US-310)
474 Ohbayashi (JA-124)
803 Ohio Edison (US-326)
718 Oki Electric Industry (JA-176)
557 Omron (JA-145)
922 ÖMV (AT-2)
456 Ono Pharmaceutical (JA-122)
145 Oracle (US-61)
130 Oréal (L') (FR-3)
278 Osaka Gas (JA-76)
697 Overseas Union Bank (SI-11)

P

192 Pacific Gas & Electric (US-75)
224 Pacific Telesis Group (US-86)
484 PacifiCorp (US-189)
603 Pancanadian Petroleum (CA-15)
737 Panhandle Eastern (US-302)
369 Paribas (FR-19)
948 Parker Hannifin (US-378)
506 Pearson (BR-53)
826 Pechiney (FR-36)
440 PECO Energy (US-171)
457 Peninsular & Oriental Steam Nav. (BR-46)
237 Penney (J. C.) (US-93)
30 PepsiCo (US-14)
749 Pernod Ricard (FR-32)
403 Petrofina (BE-2)
359 Peugeot (FR-18)
54 Pfizer (US-28)
934 Pharma Vision 2000 (SWI-17)

536 Pharmacia (SWE-6)
707 Phelps Dodge (US-287)
13 Philip Morris (US-5)
177 Philips Electronics (NE-5)
276 Phillips Petroleum (US-104)
569 Pinault-Printemps-Redoute (FR-26)
855 Pioneer Electronic (JA-207)
808 Pioneer Hi-Bred International (US-327)
485 Pitney Bowes (US-190)
447 Placer Dome (CA-9)
434 PNC Bank (US-166)
245 Polygram (NE-7)
996 Powerfin (BE-13)
468 PowerGen (BR-48)
883 PP&L Resources (US-354)
310 PPG Industries (US-119)
786 Praxair (US-318)
881 Premark International (US-353)
588 Preussag (GE-27)
970 Price/Costco (US-386)
19 Procter & Gamble (US-9)
978 Progressive (US-388)
667 Promodès Group (FR-28)
631 Promus (US-248)
765 Providian (US-313)
248 Prudential (BR-25)
772 Pryca (SP-12)
379 Public Service Enterprise Group (US-142)

QR

579 Quaker Oats (US-228)
538 Ralston Purina Group (US-211)
466 Rank Organisation (BR-47)
745 RAS (IT-10)
271 Raytheon (US-102)
573 Reader's Digest Association (US-225)
606 Reckitt & Colman (BR-63)
761 Redland (BR-73)
982 Reebok International (US-392)
137 Reed Elsevier (NE/BR-NR)
NR Reed International (BR-36)
350 Renault (FR-16)
672 Rentokil Group (BR-68)
865 Repola (FI-2)
264 Repsol (SP-3)
984 Republic New York (US-393)
193 Reuters Holdings (BR-24)
857 Reynolds Metals (US-344)
355 Rhône-Poulenc (FR-17)
490 Rhône-Poulenc Rorer (US-192)
512 Ricoh (JA-133)
351 RJR Nabisco Holdings (US-133)
780 RMC Group (BR-80)
14 Roche Holding (SWI-1)
255 Rockwell International (US-96)
554 Rohm (JA-144)
689 Rohm & Haas (US-278)
621 Rolls-Royce (BR-64)
429 Rothmans International (BR-42)
404 Royal Bank of Canada (CA-8)
525 Royal Bank of Scotland Group (BR-54)
NR Royal Dutch Petroleum (NE-1)
2 Royal Dutch/Shell Group (NE/BR-NR)
777 Royal Insurance Holdings (BR-78)
172 RTZ (BR-20)
529 Rubbermaid (US-207)
123 RWE (GE-6)

S

696 S. M. H. (SWI-14)
742 Safeco (US-305)
719 Safeway (US-295)
187 Sainsbury (J.) (BR-23)
251 Saint-Gobain (Compagnie de) (FR-10)
24 Sakura Bank (JA-10)
771 Sallie Mae (US-315)
620 Salomon (US-243)
62 Sandoz (SWI-4)
559 Sandvik (SWE-7)
247 Sankyo (JA-67)
514 Sanofi (FR-22)
752 Santa Fe Pacific (US-308)
12 Sanwa Bank (JA-7)
254 Sanyo Electric (JA-69)
200 SAP (GE-12)
779 Sapporo Breweries (JA-186)
179 Sara Lee (US-72)
55 SBC Communications (US-29)
348 SCEcorp (US-132)
574 Schering (GE-26)
155 Schering-Plough (US-64)
133 Schlumberger (US-56)
770 Schroders (BR-76)
879 Schwab (Charles) (US-351)
419 Scott Paper (US-159)
565 Scottish & Newcastle Breweries (BR-57)
623 Scottish Power (BR-65)
228 Seagram (CA-1)
1000 Sears (BR-101)
76 Sears, Roebuck (US-37)
385 Secom (JA-109)
731 Sega Enterprises (JA-180)
121 Seibu Railway (JA-33)
966 Seino Transportation (JA-236)
930 Seiyu (JA-226)
424 Sekisui Chemical (JA-117)
311 Sekisui House (JA-86)
981 Service Corp. International (US-391)

53 Seven-Eleven Japan (JA-16)
661 77 Bank (JA-162)
816 Severn Trent (BR-86)
866 SGS Sté Générale de Surveillance (SWI-16)
132 Sharp (JA-37)
763 Shawmut National (US-312)
741 Shell Canada (CA-19)
NR Shell Transport & Trading (BR-1)
853 Sherwin-Williams (US-341)
380 Shikoku Electric Power (JA-106)
335 Shimizu (JA-92)
461 Shin-Etsu Chemical (JA-123)
815 Shionogi (JA-198)
560 Shiseido (JA-146)
225 Shizuoka Bank (JA-62)
799 Showa Denko (JA-190)
726 Showa Shell Sekiyu (JA-177)
671 Siebe (BR-67)
57 Siemens (GE-2)
501 Silicon Graphics (US-196)
203 Singapore Airlines (SI-2)
507 Singapore Press Holdings (SI-8)
48 Singapore Telecommunications (SI-1)
906 Skandinaviska Enskilda Banken (SWE-12)
935 Skanska (SWE-13)
909 Smith & Nephew (BR-94)
80 SmithKline Beecham (BR-7)
261 Société Générale (FR-11)
528 Société Générale de Belgique (BE-3)
586 Solvay (BE-6)
938 Sonat (US-376)
106 Sony (JA-28)
605 Sony Music Entertainment (JA-153)
158 Southern Co. (US-65)
939 Southern Electric (BR-95)
839 Southwest Airlines (US-338)
216 Sprint (US-83)
626 St. Paul (US-245)
503 Standard Chartered (BR-52)
969 State Street Boston (US-385)
161 STET (IT-4)
680 Stora Kopparbergs Bergslags (SWE-8)
341 Suez (Compagnie de) (FR-15)
11 Sumitomo Bank (JA-6)
320 Sumitomo Chemical (JA-88)
266 Sumitomo Corp. (JA-71)
322 Sumitomo Electric Industries (JA-89)
921 Sumitomo Forestry (JA-224)
480 Sumitomo Marine & Fire (JA-126)
282 Sumitomo Metal Industries (JA-77)
612 Sumitomo Metal Mining (JA-156)
116 Sumitomo Trust & Banking (JA-32)
798 Sun (US-324)
595 Sun Alliance & London Ins. (BR-60)
118 Sun Hung Kai Properties (HK-3)
644 Sun Microsystems (US-257)
411 SunTrust Banks (US-157)
598 Suzuki Motor (JA-152)
767 Svenska Cellulosa (SWE-9)
805 Svenska Handelsbanken (SWE-11)
202 Swire Pacific (HK-5)
175 Swiss Bank Corp. (SWI-7)
238 Swiss Re (SWI-8)
955 Sydkraft (SWE-15)
549 Sysco (US-217)

T

417 Taisei (JA-116)
431 Taisho Pharmaceutical (JA-118)
885 Takashimaya (JA-214)
215 Takeda Chemical Industries (JA-59)
979 Tandy (US-389)
946 Tate & Lyle (BR-98)
452 TDK (JA-121)
550 Teijin (JA-143)
368 Tele Danmark (DE-1)
167 Tele-Communications (US-66)
362 Telecom Corp. of New Zealand (NZ-1)
85 Telecom Italia (IT-1)
198 Telefónica Nacional de España (SP-2)
913 Tellabs (US-364)
813 Tenet Healthcare (US-328)
296 Tenneco (US-112)
267 Tesco (BR-29)
109 Texaco (US-50)
236 Texas Instruments (US-92)
331 Texas Utilities (US-127)
519 Textron (US-203)
828 Thames Water (BR-89)
958 Thermo Electron (US-381)
326 Thomson (CA-5)
843 Thomson-CSF (FR-38)
317 Thorn EMI (BR-33)
636 3Com (US-252)
801 3i Group (BR-85)
454 Thyssen (GE-22)
945 TI Group (BR-97)
142 Time Warner (US-60)
505 Tobu Railway (JA-132)
986 Toho Co. (JA-242)
165 Tohoku Electric Power (JA-47)
61 Tokai Bank (JA-18)
110 Tokio Marine & Fire (JA-30)
950 Tokyo Broadcasting System (JA-229)
953 Tokyo Dome (JA-231)
23 Tokyo Electric Power (JA-9)
562 Tokyo Electron (JA-147)
212 Tokyo Gas (JA-57)
977 Tokyo Steel Mfg. (JA-240)

391 Tokyu Corp. (JA-111)
591 Tomkins (BR-59)
232 Tonen (JA-63)
273 Toppan Printing (JA-73)
293 Toray Industries (JA-81)
932 Torchmark (US-374)
592 Toronto-Dominion Bank (CA-14)
89 Toshiba (JA-25)
992 Tosoh (JA-244)
370 Tostem (JA-101)
163 TOTAL (FR-4)
515 Toto (JA-134)
412 Toyo Seikan Kaisha (JA-115)
373 Toyo Trust & Banking (JA-104)
547 Toyoda Automatic Loom Works (JA-142)
7 Toyota Motor (JA-2)
396 Toys 'R' Us (US-148)
546 Tractebel (BE-4)
663 Transamerica (US-268)
178 Travelers Group (US-71)
692 Tribune (US-280)
526 TRW (US-206)
427 TSB Group (BR-41)
675 Turner Broadcasting System (US-273)
720 Tyco International (US-296)
827 Tyson Foods (US-332)

U

545 U. S. Healthcare (US-215)
840 Ube Industries (JA-204)
465 Unicom (US-180)
35 Unilever (NE/BR-NR)
NR Unilever NV (NE-2)
NR Unilever PLC (BR-13)
59 Union Bank of Switzerland (SWI-3)
750 Union Camp (US-307)
613 Union Carbide (US-239)
321 Union des Assurances de Paris (FR-14)
714 Union Electric (US-291)
223 Union Pacific (US-85)
976 United Biscuits (Holdings) (BR-99)
428 United Healthcare (US-162)
295 United Overseas Bank (SI-4)
281 United Technologies (US-105)
381 Unocal (US-143)
860 UNUM (US-346)
887 Uny (JA-215)
437 Upjohn (US-169)
97 US West (US-45)
458 UST (US-177)
472 USX-Marathon Group (US-184)

V

724 Valeo (FR-31)
863 Vastar Resources (US-348)
102 VEBA (GE-5)
479 Vendome Luxury Group (BR-49)
421 Vereinigte Elek. Westfalen (GE-20)
789 VF (US-319)
119 Viacom (US-53)
353 VIAG (GE-17)
971 Victor Co. of Japan (JA-237)
253 Vodafone Group (BR-26)
300 Volkswagen (GE-15)
332 Volvo (SWE-3)

W

423 Wachovia (US-160)
17 Wal-Mart Stores (US-7)
453 Walgreen (US-176)
229 Warner-Lambert (US-89)
897 Washington Post (US-359)
151 Wellcome (BR-15)
916 WellPoint Health Networks (US-366)
294 Wells Fargo (US-111)
455 Western Mining (AS-7)
517 Westinghouse Electric (US-202)
409 Westpac Banking (AS-5)
923 Westvaco (US-368)
297 Weyerhaeuser (US-113)
389 Wharf (Holdings) (HK-10)
937 Wheelabrator Technologies (US-375)
760 Wheelock & Co. (HK-16)
642 Whirlpool (US-255)
596 Whitbread (BR-61)
960 Willamette Industries (US-382)
859 Williams (US-345)
869 Williams Holdings (BR-91)
634 Winn-Dixie Stores (US-250)
502 Winterthur (SWI-12)
846 Wisconsin Energy (US-340)
174 WMX Technologies (US-70)
836 Wolseley (BR-90)
491 Wolters Kluwer (NE-12)
962 Woodside Petroleum (AS-15)
653 WorldCom (US-262)
510 Wrigley (Wm.) Jr. (US-199)

XYZ

208 Xerox (US-79)
961 Yakult Honsha (JA-234)
686 Yamaguchi Bank (JA-169)
376 Yamaichi Securities (JA-105)
383 Yamanouchi Pharmaceutical (JA-108)
674 Yamato Transport (JA-165)
610 Yamazaki Baking (JA-154)
450 Yasuda Fire & Marine (JA-120)
328 Yasuda Trust & Banking (JA-90)
164 Zeneca Group (BR-18)
241 Zurich Insurance Group (SWI-9)

THE ACTION IN EMERGING MARKETS

India and Korea are hot, and Brazil is getting warmer

It's been a rough year for companies in the world's emerging markets: The abrupt devaluation of Mexico's peso in December undermined confidence in economies from Latin America to Asia. For the 26 developing countries tracked by International Finance Corp. (IFC), the overall market plunged 15% in the first quarter—and was still down 9% by May 31.

But there are plenty of bright spots in the emerging-market tableau. Asian markets have fully recovered, although Latin American markets were still off 21% at the end of May. And despite this year's rocky start, emerging-market equities will still attract net inflows of some $25 billion in capital this year, says Michael Howell, director of global strategy at London-based Baring Securities International Ltd.

BUSINESS WEEK's roster of the top 100 emerging-market companies, compiled by Morgan Stanley Capital International Inc., highlights the performance of leading corporations in the most dynamic, if volatile, economies. Ranked by market value, many of these companies are becoming global players in their own right.

Currency influences how the companies rank. Euphoria over Mexico had led many U.S. investors to buy dollar-denominated equities, such as American depositary receipts of Mexican phone company Telmex, thinking of them as dollar stocks. But Telmex lost 55% of its market value in the year to May 31 and dropped from No. 1 to No. 3 on the Scoreboard. By contrast, Asia's stronger currencies are a key to that region's better performance.

A few Mexican companies are benefiting from strong dollar exports: One such, copper miner Grupo México, has seen its market value rise by 97%. But values are down 50% or more even in well-run companies that depend mainly on the depressed domestic market, such as retailer Cifra.

Argentine companies, hurt by shock waves from Mexico's debacle, are still depressed by lingering worries about Argentina's peso. But elsewhere in Latin America, the outlook is brighter. In Brazil, economic recovery and free-market reforms, including broad privatization plans, have lifted values of state-controlled companies such as mining giant Vale do Rio Doce and electric holding company Eletrobrás, which rose to No. 4 on the Scoreboard.

FAST-TRACK GROWTH FOR EMERGING MARKETS

DATA: INTERNATIONAL FINANCE CORP

Meanwhile, Asia's ascendancy among the emerging markets is symbolized by Korea Electric Power Corp.'s rise to the top of the Scoreboard, displacing Telmex. But high-fliers such as Samsung Electronics Co. exemplify the high-tech drive that's powering Korea's economy. With an 80% jump in market value, the company leaped from No. 20 to No. 7.

With economic growth now strong throughout Asia, stock-picking based on industry-sector prospects and company

The Top 100 Emerging-Market Companies

	COMPANY	COUNTRY	MARKET VALUE ($ U.S. Bil)	% CHANGE FROM 1994
1	KOREA ELECTRIC POWER	Korea	22.80	10
2	TELEKOM MALAYSIA	Malaysia	15.25	4
3	TELEFONOS DE MEXICO (TELMEX)	Mexico	14.92	–55
4	ELETROBRAS	Brazil	14.92	45
5	TENAGA NASIONAL	Malaysia	12.58	21
6	ANGLO AMERICAN	South Africa	12.39	16
7	SAMSUNG ELECTRONICS	Korea	12.20	80
8	CATHAY LIFE INSURANCE	Taiwan	12.04	–17
9	TELEBRAS	Brazil	10.40	–7
10	DE BEERS CONSOLIDATED MINES	South Africa	9.61	20
11	MALAYAN BANKING	Malaysia	9.40	42
12	HUA NAN BANK	Taiwan	9.09	1
13	PETROBRAS	Brazil	8.97	20
14	BANGKOK BANK	Thailand	8.92	26
15	TELECOMASIA	Thailand	8.42	–2
16	SOUTH AFRICAN BREWERIES	South Africa	7.94	43
17	FIRST COMMERCIAL BANK	Taiwan	7.63	–6
18	COPEC	Chile	7.60	74
19	POHANG IRON & STEEL	Korea	7.55	–1
20	GENTING	Malaysia	7.42	32
21	VALE DO RIO DOCE	Brazil	7.33	49
22	SIAM CEMENT	Thailand	7.23	43
23	RESORTS WORLD	Malaysia	7.13	21
24	YPF	Argentina	7.06	–24
25	CHINA STEEL	Taiwan	6.85	3
26	CHANG HWA BANK	Taiwan	6.84	
27	ENDESA	Chile	6.84	
28	LIBERTY LIFE ASSOCIATION OF AFRICA	South Africa	6.54	
29	TELEFONICA DE ARGENTINA	Argentina	6.37	
30	TELECOMUNICACOES DE SAO PAULO (TELESP)	Brazil	6.27	
31	SIME DARBY	Malaysia	6.00	
32	THAI FARMERS BANK	Thailand	5.83	
33	SAN MIGUEL	Philippines	5.80	
34	SASOL	South Africa	5.57	
35	KRUNG THAI BANK	Thailand	5.33	
36	TELECOM ARGENTINA	Argentina	4.89	
37	BANCO BRADESCO	Brazil	4.87	
38	DAEWOO HEAVY INDUSTRIES	Korea	4.80	
39	TELECOMUNICACIONES DE CHILE	Chile	4.48	
40	INT'L COMMERCIAL BANK OF CHINA	Taiwan	4.47	
41	GENCOR	South Africa	4.45	
42	INDOCEMENT TUNGGAL PRAKARSA	Indonesia	4.41	
43	NAN YA PLASTICS	Taiwan	4.40	
44	UNITED MICRO ELECTRONICS	Taiwan	4.27	
45	GRUPO CARSO	Mexico	4.25	
46	STANDARD BANK INVESTMENT	South Africa	4.23	
47	CHINA DEVELOPMENT	Taiwan	4.17	
48	PETRON	Philippines	4.12	
49	INDOSAT	Indonesia	4.06	
50	CIFRA	Mexico	4.01	

amentals is becoming more impor- than faddish trends such as the g Mexican "tequila effect." In Tai- too, electronic producers are ngest. Integrated-circuit maker ed Micro Electronics Corp., for ex- e, rose 81% in market value.

gain this year, Thailand's banks are ressive performers, led by Krung Thai Bank with a 72% jump in market value. In Malaysia, where gross domestic product is rising 8% to 9% this year, "we're saying go for the infrastructure sector," says regional strategist Peter Churchouse at Morgan Stanley in Hong Kong. But Telekom Malaysia, No. 2 on the Scoreboard, rose only 4% in market cap because it's losing its former monopoly status. For the same reason, electric utility Tenaga Nasional, No. 5, lost 21%.

A RAPID RISE IN PROFITS MAKES INDIA AN ALLURING PLAY

India's main attraction is the fast rise in corporate profits, growing at a pace "probably higher than anywhere in Asia," Churchouse says. Truckmaker Tata Engineering & Locomotive Co. had its most profitable year ever. India's problem, Churchouse adds, is that "the market keeps getting set back by things unrelated to corporate earnings," such as an insurrection in Kashmir. In South Africa, political confidence instilled by the April, 1994, national elections also triggered a surge of activity. Renewed GDP growth is fattening profits of industrial conglomerates such as Anglo American Industrial Corp., up 29% in market value.

Wide swings in markets are the rewards and hazards of investing in developing nations. Boston fund analyst Micropal Inc. calculates that $100 invested on Dec. 31, 1984, in the IFC's Global Index, which reflects the performance of 1,449 emerging-market companies, would have grown to $528.07, including reinvested dividends, by June 22 of this year. The same investment in Morgan Stanley Capital International's World Index of 1,577 companies in developed markets would have grown to $461.91. The difference tells why investors will keep putting money in emerging markets, despite their ups and downs.

By John Pearson in New York, with bureau reports

NA = Not Available
DATA MORGAN STANLEY CAPITAL INTERNATIONAL

	COMPANY	COUNTRY	MARKET VALUE ($ U. S. Bil)	% CHANGE FROM 1994
	ELEPHONE & TELECOMMUNICATIONS	Thailand	3.97	NA
	ANIA PERUANA DE TELEFONOS	Peru	3.95	NA
	ECTRONICS	Korea	3.81	11
	RANDT GROUP	South Africa	3.79	17
	PPINE LONG DISTANCE TELEPHONE	Philippines	3.75	–1
		Philippines	3.71	20
	G	Taiwan	3.69	29
	WATRA COMPUTER & COMMUNICATIONS	Thailand	3.68	8
	A ELECTRIC	Philippines	3.67	–7
		Chile	3.65	60
	OSA PLASTICS	Taiwan	3.64	–7
	IS	Chile	3.63	26
	ICED INFO SERVICE	Thailand	3.62	17
		Brazil	3.59	NA
	ANG GARAM	Indonesia	3.59	80
	D ENGINEERS (MALAYSIA)	Malaysia	3.58	61
	D COMMUNICATION INDUSTRY	Thailand	3.55	27
	DAI MOTOR	Korea	3.51	9
	TY HOLDINGS	South Africa	3.49	55
	-SERVICOS DE ELETRICIDADE	Brazil	3.40	48
	AMERICAN INDUSTRIAL	South Africa	3.37	29
	ITAU	Brazil	3.34	37
	OOD SUKSES MAKMUR	Indonesia	3.33	NA
	X	Mexico	3.30	–57
	COMMERCIAL BANK	Thailand	3.29	22
76	KOREA MOBILE TELECOM	Korea	3.27	61
77	PTT EXPLORATION & PRODUCTION	Thailand	3.27	126
78	HM SAMPOERNA	Indonesia	3.22	121
79	RENONG	Malaysia	3.05	54
80	GRUPO MEXICO	Mexico	3.00	97
81	THAI AIRWAYS INTERNATIONAL	Thailand	2.95	–7
82	RELIANCE INDUSTRIES	India	2.93	–10
83	SAPPI	South Africa	2.88	100
84	PEREZ COMPANC	Argentina	2.87	–7
85	CEMIG	Brazil	2.85	38
86	RUSTENBURG PLATINUM HOLDINGS	South Africa	2.81	27
87	DRIEFONTEIN CONSOLIDATED	South Africa	2.80	16
88	FIRST NATIONAL BANK HOLDINGS	South Africa	2.78	44
89	MALAYSIAN INTERNATIONAL SHIPPING	Malaysia	2.76	11
90	SAMANCOR	South Africa	2.72	55
91	ISCOR	South Africa	2.72	104
92	ANGLO AMERICAN INVESTMENT TRUST	South Africa	2.72	8
93	C.G. SMITH	South Africa	2.66	60
94	GOLD FIELDS OF SOUTH AFRICA	South Africa	2.63	23
95	TAIPEI BUSINESS BANK	Taiwan	2.63	–5
96	LAND & HOUSE	Thailand	2.61	–23
97	HINDUSTAN LEVER	India	2.60	–14
98	ITALIAN-THAI DEVELOPMENT	Thailand	2.59	NA
99	BEVERAGE & CONSUMER INDUSTRIES	South Africa	2.55	49
100	GRUPO TELEVISA	Mexico	2.52	–72

Cover Story

WINDOWS 95-

Can Microsoft's new software live up to expectations?

Deep in the heart of Building 5 on Microsoft Corp.'s sprawling campus in Redmond, Wash., hundreds of men and women hunch over PCs in dimly lit, windowless rooms. They're bug testers, and they have been toiling 'round the clock to find and fix the last glitches lurking in the 15 million lines of computer code that make up Windows 95. In a couple of weeks, the final, "golden" version of the operating system must go to manufacturing, where Win95 will be etched into CD-ROMs and recorded on diskettes.

Microsoft plans an Aug. 24 blowout in Seattle, where Bill Gates and several hundred of his closest friends will celebrate the official launch. And computer makers around the world are poised to start a massive fall sales push behind the software that will, Gates says, unleash the full powers of personal-computer hardware, bring millions of new consumers into the market, and provide the bridge between the klunky PCs of the past and the intuitive, user-friendly information appliances of the 21st century. "Part of the big deal with Win95 is fixing all of the sins of the past," he says.

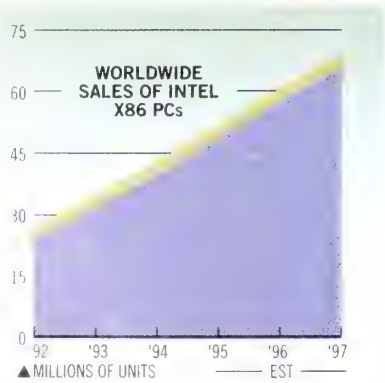
Things are tense around the bug room and across Microsoft's 27-acre campus in a woodsy Seattle suburb as the final countdown begins. In a hallway in Building 5, a large sheet of paper tacked to the wall bears the words: "Where do you want to go when we ship?" (a play on Microsoft's advertising tagline: "Where do you want to go today?"). Bleary-eyed programmers have scrawled dozens of responses including "Disneyland," "Home," and "To find me a husband." One employee has tacked up a picture of Gates and scribbled the boss's answer: "To the bank."

Not quite yet. There are still horrendous technical and logistic issues to tackle—checking the bug reports from 400,000 PC owners who have been testing "beta" copies since last fall, getting hundreds of PC makers ready to switch over to the new software, putting the last-minute fixes into manuals and other documentation (in some 12 languages), preparing dealers, firing up marketing campaigns, and working with other software companies whose products will be critical to Win95's success. At the same time, a new division is gearing up for the simultaneous launch of the Microsoft Network, the software giant's online service that will be available to all Win95 users.

Nobody has ever done quite what Microsoft is attempt

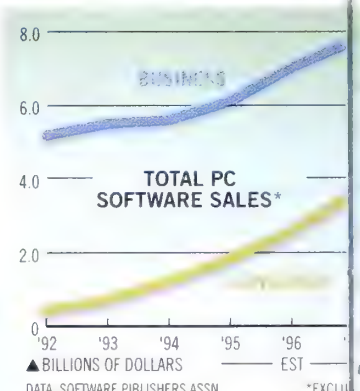
The Forecast for 199

GOOD FOR PC SALES



DATA: INTERNATIONAL DATA CORP

GOOD FOR SOFTWARE SALES



DATA: SOFTWARE PIBLISHERS ASSN., MONTGOMERY SECURITIES

*EXCLU MACINT

-to get 85 million customers and a $130
n industry to move en masse to a new technol-
Hardware and software makers in all corners of the
d are gearing up to build the machines that will live up
ne demands of the new operating system. And they're
ing for a surge in demand for everything from memory
s to CD-ROMs as Microsoft starts spending hundreds of
ons in advertising and marketing to promote Win95
related power-hungry programs.
dd to that the Win95 marketing budgets of computer
software makers, and you've got a billion-dollar blitz.

d Beyond

GREAT FOR MICROSOFT

DATA: MICROSOFT COMPANY REPORTS, MONTGOMERY SECURITIES

"This is the biggest marketing thing we've ever done," declares Steven A. Ballmer, a Microsoft executive vice-president. "Windows 95 will be as prominent as Coca-Cola on people's minds," says Lorie Strong, vice-president for marketing services at Compaq Computer Corp.

How quickly will the world turn to Win95? For consumers, the shift will be a no-brainer: By fall, virtually every Intel Corp.-based home PC on the market will have Windows 95 as its main operating system. You'll have to special order to get Windows 3.1 or IBM's OS/2. Retailers are already gearing up for another record holiday buying season. "It's going to be a blockbuster quarter," says Peter A. Janssen, vice-president for merchandising and advertising at software retailer Egghead Inc. Microsoft has 100 employees making sure the shelves of more than 15,000 stores will be brimming with Win95 boxes—each with a suggested retail price of $209 ($109 for customers upgrading from Windows 3.1).

"JUST SOFTWARE." In corporations, the shift will be more gradual. While Win95 has features designed with corporations in mind—such as built-in network connections and administrative software—the cost of installing Windows 95 on hundreds or thousands of machines and training employees is steep. Many will stick with Windows 3.1—or the more industrial-strength Windows NT—for at least a year. Even so, analysts figure Win95 shipments could hit 50 million the first year.

What can go wrong? The worst-case scenario would be a buggy—or late—Windows 95. But despite rumors of possible delays, Microsoft inists Win95 is on track. To get it right, Gates already pushed back the launch of the Windows rewrite (originally known as Chicago) from mid-1994. "It's the most in-depth, widespread testing program in

WINNERS

MICROSOFT will rake in some $1 billion on Windows 95 upgrades in year one—not including applications programs.

PC MAKERS will see a quick boost, especially in the home market.

MAKERS OF CHIPS, MEMORY, GRAPHICS EQUIPMENT, AND MODEMS will see a surge in demand as PC owners upgrade and PC makers crank out faster machines for Win95.

SOFTWARE COMPANIES get a fresh opportunity to sell customers upgrades for all kinds of applications programs.

LOSERS

SOFTWARE COMPANIES could be losers, too. As Microsoft builds more features into Windows—such as messaging, fax, and networking—it could wipe out niche software players.

IBM'S OS/2 looks vulnerable: It has only about 10% of the market, and Windows 95 matches many of its features.

APPLE COMPUTER With Windows 95, Microsoft finally catches up to the Mac's ease of use—hardly good news for Apple. Apple's comeback plan: A new operating system in '96.

the history of software," boasts Brad A. Silverberg, senior vice-president of Microsoft's Personal Systems Div. Microsoft has even jettisoned parts of the program that aren't quite ready for prime time. Some of those features, including advanced electronic-mail functions, will be sold in a $49.95 add-on package later.

The biggest challenge may be living up to the massive expectations for Win95. Microsoft executives spent the last year crisscrossing the globe to convince customers, consultants, and journalists that Windows 95 is truly revolutionary. And the campaign succeeded. Lately—perhaps because the company doesn't want to look too dominant (page 101)—Microsoft officials are trying to bring expectations down to earth. "It's just software," says Silverberg. "It doesn't cure cancer. It doesn't grow hair. It's not a floor wax. It's Windows."

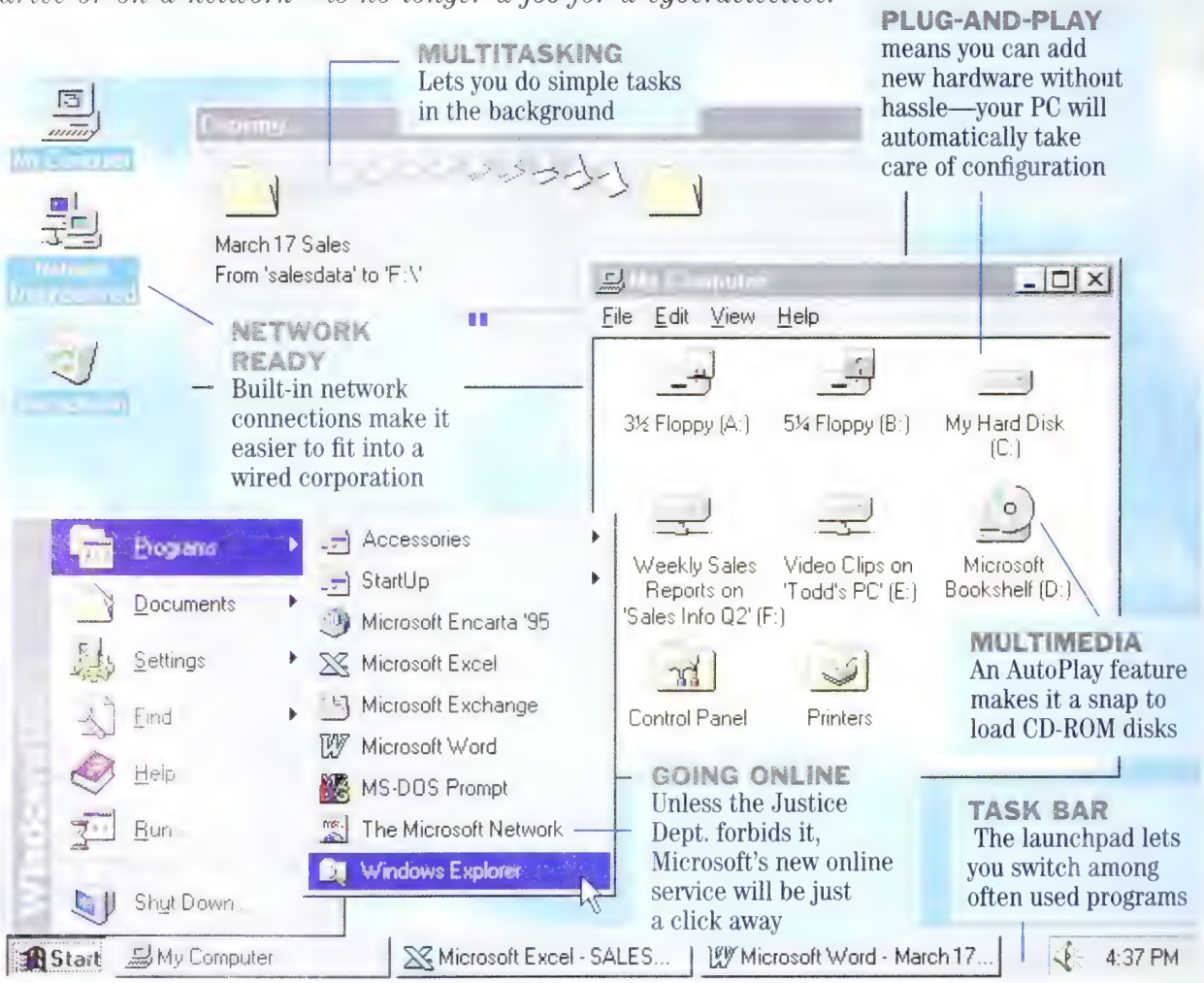
Still, by most accounts, Microsoft has another slam-dunk winner: Early reviews have praised Win95's greatly improved "user interface" and its dozens of handy new features (pa 106). If just 15% of Windows customers upgrade to the ne version—the ranks of Windows users is expected to hit 1 million by the time Win95 ships—Microsoft will rake in clo to $1 billion in the first year. Some analysts figure the u grade rate could be twice that.

There's more. Microsoft, which is expected to close its Ju 30 year approaching $6 billion in sales, will get an addition $400 million to $500 million in 1996 from sales of a Win version of Microsoft Office, due out around the same time, f ures Michael Kwatinetz, an analyst with PaineWebber I Best of all, it could almost double, to $2 billion, the revenu Microsoft makes from copies of Windows sold with new PCs a lucrative profit stream since costs are minimal.

CHAIN REACTION. Of course, this being Microsoft, the Win launch is tinged with controversy. The Justice Dept. is inves gating charges that by building connections to its new onli service into Win95, Microsoft gives itself an insurmountab edge over online competitors such as CompuServe Inc. Justi

What's New

Windows 95 replaces the old Windows user interface with an uncluttered work space. Hit the "Start" button, and a series of nested menus lead you to your programs. Or write your own shortcuts and launch your favorites with a single click. Finding files—on your hard drive or on a network—is no longer a job for a cyberdetective.



stigators are also looking into s of the contracts that Micro- is negotiating with PC makers will ship Win95 on their ma- es (page 100). Just weeks before 95's launch, top PC makers, in- ng Hewlett-Packard Co. and Dell puter Corp. have not yet signed. one of this, however, is likely it much drag on Microsoft's bul- train. HP's business PC chief, ues Clay, predicts that the PC ers will sign their contracts— negotiating better terms. And if Justice forces Microsoft to nnect the automatic links to the osoft Network, say industry in- s, it's not likely to push back launch—or slow Windows 95's p of the PC industry.

ottom line: While computer and vare makers may privately en- seeing the feds make Microsoft m, they don't want Windows o falter. They're counting on 95 to set off a chain reaction will sweep through the entire puter industry. Examples: PC ers who buy the Windows 95 ade may want to buy additional ory chips. And with an operat- ystem that hogs 27 to 50 mega- s of storage space, you might a bigger disk drive.

on't want to sink more money your old machine? PC makers have lots of new models this fall geared specifically to the s of Win95. Packard Bell Electronics Inc. recently an- ced what it says is the first officially sanctioned (by Mi- oft) Win95-compatible machine, and Compaq promises ntirely Win95-ready lineup for the home market by Sep- ber. "It's a chance to set off a whole new explosion," Microsoft's Ballmer.

ow big? Hard to say. But there are signs. Orders for conductors—a leading indicator of PC sales—are up 54% last year. Kwatinetz of PaineWebber projects that Win95 d boost PC sales by an additional 5% in the first 12 ths. "We want to sell a ton of Pentium processors in and [Win95] will help," says Intel Senior Vice-President ald J. Whittier.

ES PLAYER. The cycle won't stop there. Owners of souped- CS will want new software programs to match. Plus, the bination of powerful Pentium PCs, multimedia technology, Windows 95 should spur all sorts of innovative programs launch the PC into new markets. For instance, the PC has ed second fiddle to Apple Computer Inc.'s Macintosh in pub- ng circles. "People didn't take it seriously," says Jerry ber, chief technology officer at Adobe Systems Inc., which es desktop-publishing software. Windows 95 could change "We expect to sell a lot of new applications," he says.

oftware developers also see a major opportunity in games Windows 95—perhaps stealing part of the multibillion- r video-game market now owned by Nintendo Co. and Enterprises Inc. Microsoft paid special attention to ing Win95 a better platform for games, speeding up phics performance, and improving its ability to play o clips. "Win95 is a huge step forward," says Ron D. Gil- , co-founder and creative director at Humongous Enter- ment Inc., which makes "edutainment" software. "You'll see Windows become the predominant game platform."

"IT DOESN'T CURE CANCER": *Chase and Silverberg are trying to tone down the hype*

So what will Windows 95 do for you? For starters, it should make computing a much less frustrating experience—at least for people who haven't been spoiled by Apple's Macintoshes. The first thing you'll notice when you turn on your Windows 95 machine is a simplified graphical interface that reduces screen clutter by organizing contents into a few areas represented by icons on your screen. For instance, by clicking on an icon labeled "My Computer," you can view the contents of your disk drive. Similarly, an icon called "Network Neighborhood" offers up a graphical view of any other computers or printers you are connected to on a network.

TOOL TIPS

Let the cursor hover too long, and Win95 will "sense" confusion. Then, a "help box" appears

Windows 95 also goes a long way toward making it easier to set up a system or add new devices—a modem, say, or a CD-ROM player. With a feature called plug-and-play, Windows will—in most cases—be able to identify a device and automatically figure out how to work with it. And if you've ever lost a file because you forgot what you named it, you'll love long file names. Windows 95 gets rid of the eight-character limitation for file names, so you can use more meaningful names—julysalesreport instead of july.rpt.

True, IBM's OS/2 and Apple's Mac OS have long had many of those same features—and more. So has Microsoft's Windows NT operating system. But now, these features will be built into tens of millions of home PCs. As applications software arrives to exploit some of Win95's capabilities—built-in communica-

PHOTOGRAPH BY ALEXANDER MARKS-MARTON; ICON BY ALAN BASDEN

An ordinary PC?

With a PC you run into walls. You can only work:

By yourself (sorry, no collaborating).

By e-mail (but not from your pager).

By leaving notes (you can't record a voice message on a regular PC).

r a Globalyst™ PC&C?

With an AT&T Globalyst there are no walls.
You can work with the data you need.
The people you need. The flexibility
you need. (That's what PC&C–
Personal Computing and Communications–is all about.)

AT&T Globalyst features at no extra cost:

- ❑ MessageFlash™/MailFlash™: send key messages, e-mails to alphanumeric pagers.
- ❑ AT&T Vistium™ Share Software: allows real-time collaboration with others on live Windows™ files–even if you're miles apart.
- ❑ AT&T NoteIt!™: special screen saver lets colleagues leave a voice or typed message on your Globalyst
- ❑ Call 1 800 447-1124, ext. 1125 for more info, or e-mail us on the Internet: pcc.info@daytonoh.attgis.com

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Intel Pentium or 486 • Processor speeds from 50MHz–133MHz
4 PCMCIA Slots • 4MB-192MB Memory • 540MB-2GB Hard Disk

ing computing and communications together
help you get, move and use information.

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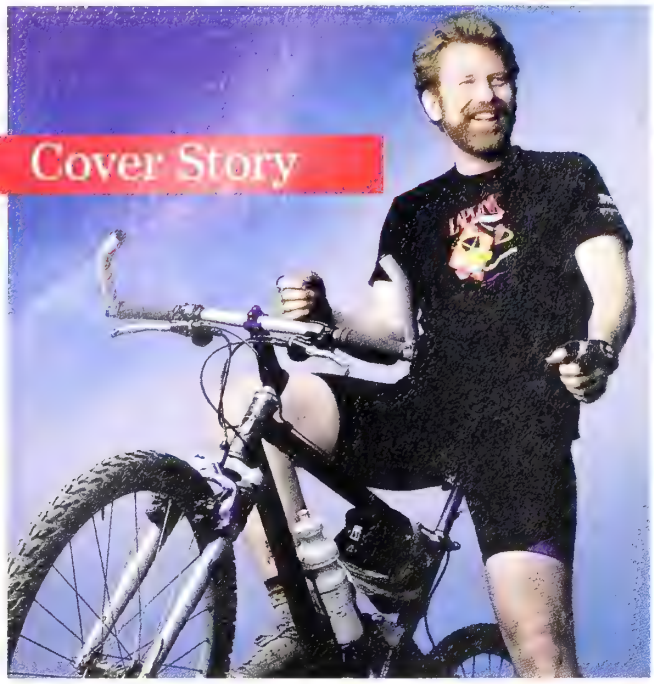


IN GEAR: *Traveling Software's Eppley says Windows 95 could boost his company's flagship product, LapLink*

tions that make reaching across the Internet as easy as pulling a file from your hard drive, for example—new uses for PCs will become possible. "This is a watershed event, in that the PC becomes a consumer device," says Mark Eppley, CEO of Traveling Software Inc. Win95 may provide the final nudge that makes the PC an indispensable consumer appliance for entertainment, online communications, and interactive media. "You're looking at the PC taking more time from TV, that will cause a shift in your leisure time," says Rich Edwards, an analyst at Robertson Stephens & Co.

And guess who's geared up to take maximum advantage of the new home-PC phenomenon? That's right, from the Microsoft Network to a raft of new titles from Microsoft Consumer Div., the folks in Redmond are working overtime to think up new ways to lure you from the TV to the PC. The Microsoft Network is intended to be a giant electronic bazaar of information and online shopping—with Microsoft taking a commission on all sales. Microsoft Home is readying dozens of Win95 titles for Christmas, including updates of the popular Encarta and Cinemania CD-ROMs and Fury, a new arcade action game.

Other software makers have a lot to lose. While a new operating system gives everybody in the industry a chance to create fresh applications programs, Microsoft is often the biggest winner. Take office applications. Before Windows 3.0 came out in 1990, Microsoft trailed in two key categories: word processing and spreadsheets. But the category leaders, WordPerfect Corp. and

Wizard

WIZARD Walks you through a range of tasks, from adding a printer to setting up a remote network connection

WILL THE WATCHDOGS KEEP BARKING AT WINDOWS?

Windows 95 is finally passing Microsoft's quality-control tests. But can it pass muster with Assistant Attorney General Anne K. Bingaman?

Bingaman's antitrust troops are looking into whether, as rivals and PC makers allege, the software giant is using anticompetitive tactics with Win95. The most high-profile investigation involves plans to "bundle" instant access to Microsoft Network (MSN) in Windows 95. In early June, Justice subpoenaed scores of Microsoft's online rivals and partners, as well as industry analysts, seeking information on MSN. On June 21, the department served Microsoft with a sweeping request for information, to which Microsoft responded on June 23 by challenging the subpoena in federal court. In its petition, Microsoft characterized the request as the "latest salvo in what increasingly appears to be a campaign of harassment." Justice, which moved to strike the petition, called it a "tempest in a teapot."

Justice is also looking into Microsoft's proposed licensing contract with PC makers. Clause 12d in the Win95 license agreement, PC makers say, would bar them from suing Microsoft or any of its licensees for infringing patents that relate to Windows 95 or other Microsoft programs. Microsoft says it is simply trying to protect itself from becoming a third party in patent and copyright suits. But PC makers argue that if they sign 12d, they can't protect their intellectual property—the enhancements they make to their Windows 95 systems, for example—from Microsoft or any PC maker. Says AST Research Inc. attorney Jonathan B. Orlick: "Microsoft would be able to include anything we develop that has to do with software without paying royalties."

BINGAMAN: *Probing gripes about Microsoft contracts*

Microsoft has proposed such language since 1990, and many companies without patent portfolios have signed. But as Microsoft began insisting that even its biggest customers sign pacts with 12d for Win95, Justice got wind of the controversy. The department is now investigating language in contracts for Win95, Microsoft Office, and Microsoft Network.

STICKY PROBE. In the end, PC makers won't risk missing the Win95 wave. Most likely, they'll negotiate compromise language, making the investigation moot. The Justice probe of MSN, however, could be stickier. Worst case: It could push back Microsoft's Aug. 24 launch date. "We're doing everything in our power to make our launch time," says William H. Neukom, Microsoft's senior vice-president for law and corporate affairs. It looks like somebody's going to have to give. Will it be Gates or Bingaman?

By Amy Cortese in New York, with Peter Burrows in San Francisco and Catherine Yang in Washington

TOP TO BOTTOM: PHOTOGRAPHS BY REX RYSTEDT; RICHARD A. BOCHMANN; [illegible] BY ALAN BASELON

s Development Corp., were slow to ship Windows versions ıeir packages. Now, Microsoft Office commands 80% of market for suites—bundles containing word-processing spreadsheet programs.

ıe lesson wasn't lost on Lotus, whose declining desktop vare business helped make it takeover bait for IBM. The rience with Windows 3.0 is "one reason why we decided we would go with Windows 95," says Ilene H. Lang, or vice-president for desktop software at Lotus. Lotus s to update its programs for Win95 "as soon as pos-," she says. Analysts figure it will be yearend at best be-a version of Lotus SmartSuite for Win95 hits the streets. That will give Microsoft only a three-month head start—rather than the two years it had with Windows 3.0. Novell Inc., which acquired WordPerfect last year and is the other top competitor in suites, isn't concerned about giving Microsoft a bit of a lead. "What's the big deal if you ship in August rather than October?" asks Glen D. Mellar, vice-president for marketing at Novell.

Cover Story

Some companies lucked out when Microsoft decided it could not complete some things it set out to do with Win95. When the program was under development, players in niche mar-

MICROSOFT'S ONLINE TIMING MAY BE OFF

ver since plans for Microsoft Network surfaced nearly a year ago, punits and competitors have redicted the dominant play-r in software would quickly ominate online services. The eason: With the click of a ıouse, millions of Windows 5 users could sign up—an dge so big that rivals comlained to the Justice Dept.

But weeks before launch, SN isn't looking like an int winner. Some 160 U.S. nd 75 European content proiders have signed up. But ompuServe has 3,000. And xcept for NBC, Home Shoping Network, and ESPN, MSN as few marquee names. Worse, until SN's "Blackbird" software is ready in 996, online publishers won't match ıe whizzy graphics of other nets.

SIEGELMAN: *Coexisting with the Internet*

YESTERDAY'S GAME. There's another roblem: Microsoft is launching MSN hen content providers are swarming the Internet's World Wide Web. orrester Research Inc. says MSN will it 2.4 million subscribers in 1997, but fter that, all commercial services will uffer at the hands of the Web, which expected to have more than 11 mion users in 1998. "Microsoft is playıg yesterday's game," says analyst Villiam Bluestein. Some content proiders agree. "There's no gain to goıg to Microsoft now," says Dan Iapes, president of SynergyLabs, a an Francisco multimedia producer. The Internet is happening so fast."

Microsoft executives say it isn't an either-or" scenario. America Online, rodigy, and CompuServe have nternet links now, and so will MSN y yearend. "More and more, we ıink of MSN as a part of the Interet," says Russell L. Siegelman, genral manager for online services.

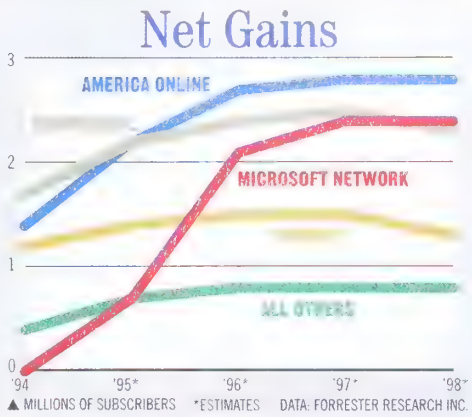
MSN also must get out from under the Justice Dept., which is looking into whether bundling MSN with Win95 violates antitrust rules. *The New York Times* has estimated that 9 million people might, at least temporarily, sign up for Microsoft's network by the end of the year. But the number is likely to be far lower. For one thing, virtually all new home PCs include software making it easy for people to sign up with existing online services. Analysts estimate only 10% of people use that option. Legal experts say it will be hard to prove any violations. Justice is also looking into allegations that Microsoft, which plans not to share subscriber lists with content providers, will track who visits rival software makers on its network, then target those as potential customers for Microsoft products. "Microsoft hopes to attract competitors to its network like a fly to a spider's web," says Robert H. Kohn, general counsel at Borland International Inc. Microsoft executives say online services routinely withhold subscriber data to protect privacy and have no plans to use the lists to push Microsoft wares.

PRICING ILLUSION? MSN has its fans. Other services give content makers a cut—up to 30%—of the connect fees based on how much time is spent by members in their online areas. MSN allows each content maker to set fees, from which Microsoft will take a cut of up to 30%. Microsoft also gets 20% of advertising revenues and a 5% commission on goods sold on MSN but delivered by other methods.

Rivals say this is no bargain. Barry F. Berkov, CompuServe's executive vice-president, calls the pricing plan "complete bull." Keeping 70% of fees in a Johnny-come-lately network, he says, may be less than the 30% you get from a much bigger pie.

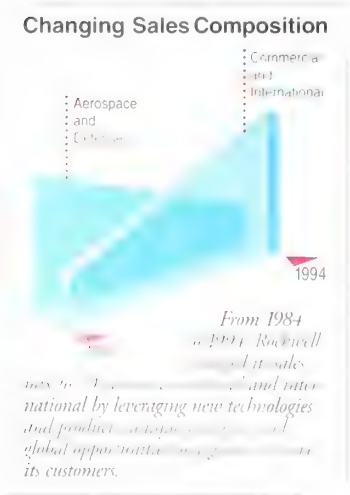
Rivals are dancing as fast as they can. Each has new multimedia software, Web links, and marketing initiatives. Reno Air now hands out CompuServe disks with the snacks. Prodigy is making deals that will put its software on 80% of new PCs. And AOL plans a second network with MSN-like pricing. Even for Microsoft, there are no instant winners in cyberspace.

By Kathy Rebello in Redmond, Wash., with Paul M. Eng in New York



You don't have t
recognize the ch

STRENGTH. Companies that have it possess the power to grow by dramatically transforming their composition. ▲ The way Rockwell, over the last ten years, has changed itself into a dynamic commercial force. ▲ Today, our $12.5 billion company's strength is reflected in a sales mix that has evolved to more than 70 percent commercial and international business. Making us a rapidly growing force in diverse markets ranging from telecommunications and automotive to industrial automation– while maintaining our leadership positions in aerospace and



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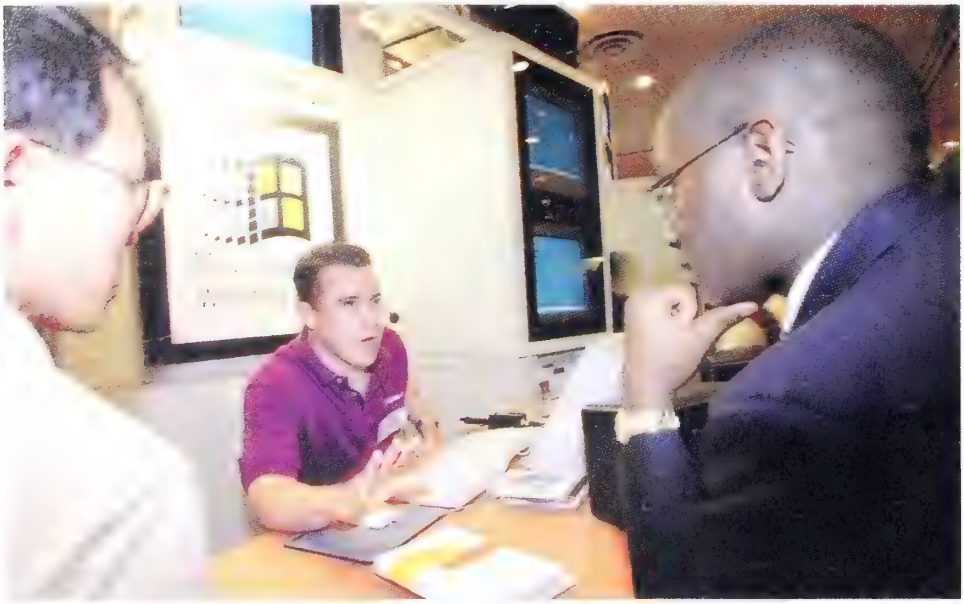
kets—such as fax, communications, and utility programs—were spooked by reports that their bread-and-butter products would become mere features in Windows 95. Delrina Corp., a $100 million maker of communications software based in Toronto, feared that Win95's communications software would torpedo its business. But, says President Mark Skapinker, Microsoft left room for a more sophisticated package such as Delrina's Winfax program. Still, he knows better than to rest easy. "It's not Win95 I worry about now, but Win96 and Win97."

Cover Story

Eppley of Traveling Software likens competing with Microsoft to mountain-bike riding, his favorite sport: "You have to be focused and looking ahead at the terrain," he says. So far, Eppley has prospered by exploiting holes in Microsoft's offerings. Microsoft has built into Win95 software for transferring files between a laptop and a network back at the office—just what his flagship product, LapLink, does. But Eppley found a hole. The next version of LapLink will work between Windows 95 computers and those running older versions of Windows—something Microsoft won't do. Compaq plans to ship LapLink on all of its Windows 95 PCs. "We think [Win95] will be a boost of 20% to 30% over our existing business, at least in the first couple of months," says Eppley.



NO-BRAINER: *Microsoft should have little trouble getting consumers to make the shift*

MAC ATTACK. Another survivor: Symantec Corp., a maker of utility programs that keep PCs running smoothly by sniffing out viruses, cleaning cluttered disk drives, and diagnosing problems. With each version of Windows, Microsoft adds more such capabilities, but the latest version is less ambitious than planned. Symantec CEO Gordon E. Eubanks says he still has plenty of opportunity with Win95. In fact, investors have bid up Symantec shares by 50%—from around $20 to nearly $30 this year.

Microsoft's rivals in operating systems won't get off so easily. While Mac lovers say Win95 just barely catches up with the Mac OS, the differences may not be apparent to most consumers. "We have better technology, a better system story, an easier migration path," contends David C. Nagel, Apple's senior vice-presidn for research and development. But if Apple—and its new Mac cloning partners—can't convince customers of that, the Mac will become a tiny minority. Already, its share of the global market has slipped, to around 8.3% from its peak of 9.4% in 1993. Step one will be a huge Christmas-quarter marketing blitz—with an estimated $100 million budget range. "Otherwise," says Nagel, "we're in danger of getting drowned out in a tidal wave of information coming out of Redmond."

IBM's defense appears to be to pretend Win95 doesn't exist. IBM's Personal Software Products group, which once pushed its technically superior OS/2 as a "better Windows than Windows," is sitting on the sidelines. PSP execs say they won't try to find a way for OS/2 to run Win95 applications and will focus on persuading developers to write programs for OS/2. "OS/2 is everything Windows 95 hopes to be," says PSP President Ira Reiswig. But analysts say IBM will have a hard time attracting developers, with less than 10% of the desktop market.

WIN-WIN. Big Blue will continue to take on Microsoft, however—just not on the desktop. The computer giant is shifting the battle to networked computing, where Microsoft remains relatively weak. With the $3.5 billion purchase of Lotus, IBM now looks relatively strong: Lotus Notes is the leading software package for helping people work together over a network.

If IBM can capitalize on Lotus by grabbing a commanding position in networked applications, it may not become a Win95 loser. But if IBM doesn't make its move quickly, it could get rolled over by Microsoft's next network-computing push, centered on Windows NT. An improved, slimmed-down version of NT released last year has been gaining market share—especially as a system for running network servers. It also has the industrial-strength security and dependability characteristics that corporate customers demand—and that are absent from Win95. And next year, NT will get crowd-pleasing Win95 features such as the new user interface. That's why, when it comes to Win95, "it may make sense to skip it," says Don Delson, manager for office automation and workstations standards at Nestlé USA Inc.

Either way, Microsoft wins. NT is clearly the company's long-term strategic platform, and Win95, while a major step forward, is ultimately a placeholder for bigger things to come. In fact, Windows 95's most important role could be to set up a smooth transition to NT and its successors, including Cairo, a distributed operating system based on NT that is expected in 1997. To make sure developers of applications software know the route, Microsoft is forcing them to develop for both Win95 and NT. To qualify for the "Windows-compatible" stamp, a program must now work with both operating systems.

Windows 95 "is 10 steps forward. But it's not the end of what we want to do with Windows," says Brad Chase, general manager of the Personal Systems Group. Those sentiments resonate back at the bug room. In answer to "Where do you want to go when we ship?" one tester has written: "I get a cup of coffee, then start work on Win96."

By Amy Cortese in New York, with Kathy Rebello in Redmond, Wash., and bureau reports

SHORTCUTS

Rather than searching for a file and the program to launch it, Shortcuts gives you one-button access

Cover Story continues on page 1

TEST DRIVE: YES, IT LOOKS LIKE A WINNER

David Cole, general manager of Microsoft Corp.'s Personal Systems Div., likes to show his visitors "horror" videos. A woman sits at a computer in Microsoft's usability lab, trying to start Write, a word-processing program in Windows. After nine agonizing minutes, a Microsoft employee finally steps in and tells her how.

Cover Story

Cole's goal for Windows 95 was to come up with an intuitive approach that even a novice could figure out. And his programmers have succeeded. Windows 95 isn't as elegant as Apple Computer Inc.'s Macintosh OS, and it lacks the crash-proof robustness of IBM's OS/2 and of its own big brother, Windows NT. Many Win95 features are old hat to Mac and OS/2 users.

SINGLE CLICK. Win95 is a quantum leap, however, for people who have struggled through chores such as locating a file or launching a program on Windows 3.1. Win95's "shortcuts," similar to Apple's "aliases," let you drag the icons of frequently used programs directly to the "desktop" screen so they can be launched with a click of the mouse. Win95 also has a button marked "start" in the lower left corner. Click it, and your programs are listed in a series of menus. Click once (a relief for those still trying to master double-clicking) on your choice, and it starts up.

There are tricks from OS/2, such as printing a file by simply dragging it onto a printer icon. Another is using the right mouse button to see a menu of actions relevant to what the cursor is on. And every Windows user will hail the "recycle bin"—the overdue answer to the Mac "trash can" and OS/2's "shredder."

Win95's "plug-and-play" feature could make adding a modem, printer, or network card as easy as it has always been on a Mac. If a device conforms to the standard drawn up by Microsoft, Intel Corp., and others, the system recognizes the device and helps install any support software.

Win95 finally makes multitasking—running more than one program at a time—a reality, not just a theory. To switch among programs, you simply click on one of a string of buttons on the "task bar" at the bottom of the screen. This is possible because Win95 uses memory more efficiently than creaky old MS-DOS.

You'll need plenty of memory, though. For example, one of the biggest potential benefits is Object Linking and Embedding (OLE), which allows you to exchange data among programs—automatically placing a Lotus 1-2-3 chart in a WordPerfect document, for instance. But to take full advantage of OLE, you'll want to go beyond the 4 megabytes minimum of main memory Microsoft suggests—to at least 8 and maybe 16.

POWER PLAY. Which brings us to the cost-benefit analysis. On the plus side, Win95's interface is a clear winner. (One reservation: The Explorer program, which replaces the awful File Manager, is still mysterious.) Another plus: Win95 runs nearly all programs written for MS-DOS and earlier versions of Windows. But the programs won't run better. You'll get a speed boost only with Win95 applications, starting this fall.

How quickly should you jump to Win95? If you buy a PC after August, chances are it will be the only operating system available. I would recommend replacing, rather than upgrading, anything less powerful than a 33-megahertz 486-based PC. To get your high-end 486 ready for Win95, count on spending a few hundred dollars to boost internal memory and maybe $400 for a new gigabyte hard disk. You'll need it for all those zippy programs coming next year.

By Stephen H. Wildstrom in Washington

How They Stack Up

FEATURE	WINDOWS 95	WINDOWS 3.1	OS/2	MAC OS
*Latest version/price**	Preview/under $100 (upgrade)	Windows for Workgroups 3.11/$48	3.0 Warp/$100	System 7.5/$100 (upgrade)
Minimum configuration (Published)	386SX processor, 4-MB RAM	386SX processor, 4-MB RAM	386SX processor, 4-MB RAM	68030 processor, 4-MB RAM
Minimum configuration (Satisfactory)	486DX2 processor, 8-MB RAM	486DX2 processor, 8-MB RAM	486DX2 processor, 8-MB RAM	68040 processor, 8-MB RAM
Plug-and-play support of hardware add-ons	Yes, for hardware compliant with plug-and-play standard, some older devices	No, except for some PC-card devices used in laptops	No, except for PC cards	Yes
Combined file and program manager	Yes	No	Yes	Yes
Desktop shortcuts	Yes	No	Yes	Yes
Built-in network connection	Yes	No	No	Yes

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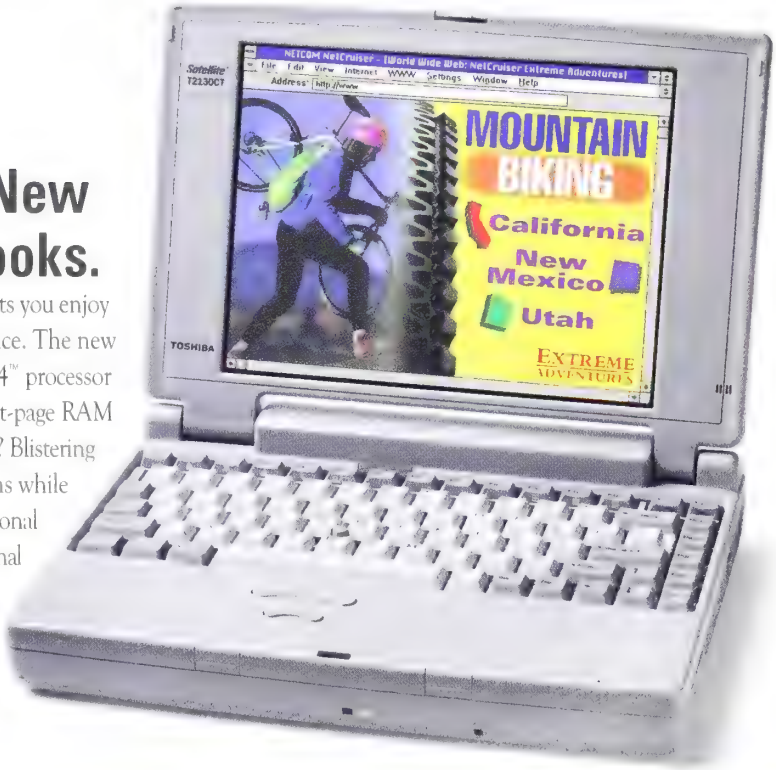

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TELEMARKETING

DIALING FOR *DINERO*

Multilingual phone sales are ringing up speedy growth

Marty Shih, a Taiwanese native, has something a lot of marketers want: a vast knowledge of Asians, including cultures, languages, and buying habits—and a multilingual phone staff for reaching them. Last year, the 40-year-old founder of Asian Business Connection in Rosemead, Calif., sold Asians living in the U.S. $40 million worth of goods by phone. His 200 operators hawked everything from flowers to hotel rooms to Sprint long-distance service—in six different Asian languages.

Major marketers are drawing a telephonic bead on immigrant and ethnic markets—a fast-growing reservoir of potential customers who have been bombarded by far fewer sales messages than mainstream consumers. And they find that, unlike mainstream customers tired of fending off intrusive callers, many immigrants are receptive to telemarketers who speak their language. That makes the ethnic market one of the fastest-growing segments of the $500 billion telemarketing business.

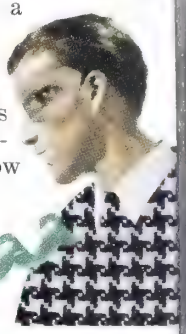
For some, foreign-language telemarketing is a response to a changing customer base. "Last year, people woke up and realized that a third of all [our] new business is coming from these markets," says Gary Matus, executive vice-president of Bank of America. Now, BofA's bilingual telemarketing staff phones new, foreign-speaking customers in their native languages within days of their first visit to the bank.

MCI Communications Corp. is also using its phones to ring up sales in the immigrant market. The long-distance giant credits much of its four-year, 9% market-share gain in outbound international minutes to its 19-language telemarketing efforts. "The international market is growing 15% a year—twice the domestic market," says John Donoghue, marketing vice-president for consumer markets. Sprint Corp. estimates that recent immigrants spend four to five times as much as average customers on long distance.

AT&T can reach out and touch sales prospects in 140 languages—and it begins the process before newcomers even reach these shores. It runs seminars for would-be emigrants in the Philippines, distributing helpful information on setting up utilities and dealing with immigration authorities in the U.S. Included, of course, is AT&T's 800 number staffed with Tagalog-speaking operators.

But telemarketing across cultures and languages can be tough. Immigrants are not always familiar with the gadgets or services being pitched. That helps ma foreign-language calls longer—and m expensive—than pitches in English. C tural differences can also throw up ro blocks. Hispanics, for example, tend to carry credit cards, making paying phone difficult.

EXPERT HELP. That's why many com nies farm out telemarketing to exper Matrixx Marketing Inc., a subsidiary Cincinnati Bell Inc., grew from sales $5 million in 1988 to $226 million l year. Two years ago, it added eth marketing, and last year, it handled least 12 million foreign-language ca "We get incredible economies of scal says CEO David F. Dougherty, who s Matrixx can slice one-quarter to o half off the cost of a foreign-language call that might cost $6 to $9 if a client did it in-house. He expects foreign-language telemarketing to grow 20% this year.



The market has attracted some new players, too. D. King & Co., the privately he New York company best known as proxy solicitor, found itself with sophis cated but idle phone gear when t takeover frenzy of the 1980s died. Wi King's proximity to the ethnic enclav of New York City, foreign-language te marketing was a natural step. Last ye it handled 1.75 million calls, half of the in foreign languages. King's call cent staffed with recruits from college ca puses and referrals, has grown from operators to 200 in three years.

Like other telemarketers, King sa foreign speakers welcome a call in the language. That helps propel respons from fast-growing Hispanic and Asi populations to rates two or three tim those of campaigns in English. For te marketers who have called mainstrea customers once too often in the midd of dinner, that's a welcome change.

By Nanette Byrnes in Los Angel

SPEAKING IN TONGUES

Some big-name marketers are wooing ethnic customers by phone

AT&T

Does in-house telemarketing in languages from Polish to Chinese. In certain markets, such as the Philippines, it uses "pre-immigration" programs to introduce AT&T even sooner.

SHOWTIME (VIACOM)

Launched "Showtime en Español" last season with a big telemarketing push. Found their Spanish-speaking customers easier to retain.

SPRINT

Outsources telemarketing in at least eight languages. Finds that recent immigrants spend $75 to $150 a month on long distance and are receptive to telemarketing calls in their own language.

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AGOG IN GOGGLES: *A high-stake race is on to resolve health issu*

No one is sure what causes virtual reality's side effects, but the threat of litigation makes them serious

Two summers ago, at a consumer-electronics show in Chicago, Sega Enterprises Ltd. trumpeted its plans for a $200 virtual-reality game system based on its popular Genesis machine. Then, Sega managers got the results of a study they had commissioned from researcher SRI International in Menlo Park, Calif. By Christmas, the VR project had been shelved, never to be revived.

Neither Sega nor SRI will discuss details of the study. Steven Payne, Sega's vice-president for product development, says only that the machine "couldn't deliver the experience we wanted." But word quickly leaked out that some users who donned Sega's prototype head-mounted display (HMD) suffered jarring symptoms, from nausea to sore eyes—a suite of complaints the VR community calls "cybersickness."

These side effects were no sudden revelation. After 30 years of experience with VR for flight and weapons training, the U.S. military today often grounds pilots who experience queasiness during simulations—a condition it calls "simulator sickness." Nonetheless, Sega's retreat sent a chill through the young VR industry, which wants to bring virtual entertainment into every home.

Now, as a wave of VR products approaches the consumer mark manufacturers of HMDs, gloves, a PC add-on boards fear that eye in ries or LSD-style "flashbacks"—a ensuing litigation—could hobble t budding VR market. "I'm worri about long, unsupervised use children," says Gordon Kuenste CEO of headset maker Virtual Ima Displays Inc. (VIDI) in Redmon Wash. Adds McGill University ps chologist Glenn F. Cartwright Montreal: "There could be some b lawsuits looming."

MIXED SIGNALS. Lack of clinic data makes it hard to pinpoint cau es of cybersickness, but there a several theories. Users may stra their eyes squinting at low-resol tion screens. Sharper displays he but aren't a panacea. Most HMDs f cus the eyes at a flat depth, th create a 3-D illusion of objects mo ing closer and farther away, whic sends conflicting signals to th brain. "That's not natural," sa University of Edinburgh psychol gist John Wann, who studies VR-r lated complaints. Queasiness has different cause. Experts trace it corruption of a mechanism calle the vestibulo-ocular reflex, which th brain uses to coordinate input from th eyes and the inner ear. If a VR syste processes visual information too slowl says Joshua Larson-Mogal, market-de velopment manager at Silicon Graphic Inc.'s Advanced Systems Div., the tw sets of signals get out of synch. For ex ample, the inner ear will signal that users' head is turning. But it takes split second for the visual imagery t catch up—a factor called latency.

To Larson-Mogal, the solution is obv ous: lightning-fast processing speed fro a high-end SGI workstation. But in fac latency isn't always the culprit. Afte studying high-performance simulatio for 10 years, Dennis K. McBride, th Office of Naval Research's chief scientis for modeling and simulation, found tha

VIRTUAL REALITY MAY BE HAZARDOUS TO YOUR HEALTH

The next big splash about VR could come from lawyers. Low-end systems may pose risks:

EYESTRAIN

Squinting at low-resolution images in a cheap head-mounted display (HMD) can strain your eyes. So can poorly crafted spatial illusions. Some doctors suggest limiting exposure to one hour.

SIMULATOR SICKNESS

Nausea and confusion occur when head position and visual signals are out of synch. Effects vary with individuals but appear most likely with low-end systems that display less than 60 frames per second.

FLASHBACKS

Virtual reality creates audio and visual illusions of motion but lacks other physical cues. To resolve the conflict, the brain forges new neural pathways, which can cause flashbacks hours later.

How Frito-Lay Handles the Decision Making CRUNCH

Doritos® and Tostitos brand Tortilla Chips, Lay's® and Ruffles® brand Potato Chips, and Rold Gold brand Pretzels

It's hard to imagine any company that understands consumer tastes better than Frito-Lay, a leader in the U.S. salty snack category with annual revenues of more than $5 billion. Yet Frito-Lay is determined to get even closer to its 400,000 retail customers.

In fact, a decentralization effort begun in 1990 has, in the last five years, brought a renewed sense of ownership and empowerment to the 30,000 Frito-Lay employees. As part of this ownership, Frito-Lay's Information/Technology Systems department (I/TS) has created a tactical, market-driven decision support system—the Zone Workbench System—designed to get timely information in the hands of front-line managers.

It's an application built from the customer up, and the SAS® System of software has been there every step of the way.

"The Zone Manager is the first line of communication with our Route Sales force," says Tom Nealon, Director of I/TS for Frito-Lay, whose department spearheaded development of the decision support system. "We knew from the start that the Zone Workbench had to provide information that was 'actionable'. It also had to be portable across client/server, workstation, or laptop environments. Equally important was the ability to integrate multiple data sources."

Delivering More than Software Alone

"Given the tight schedule, the software company we chose had to provide superior applications development tools—as well as comprehensive training, consulting services, and documentation," adds Nealon. "SAS Institute came through on every count, proving time and again the value of having a software vendor that's as interested as we are in completing projects on time and on target."

Nealon calls the Zone Workbench "a tremendously versatile business tool proving user-friendliness, power, and portability between platforms can all operate in one package. The old-style EIS systems are antiques. The game today is to provide information that can impact the marketplace each day, for each of our customers. For Frito-Lay, SAS Institute is making sure we have the tools to make an impact."

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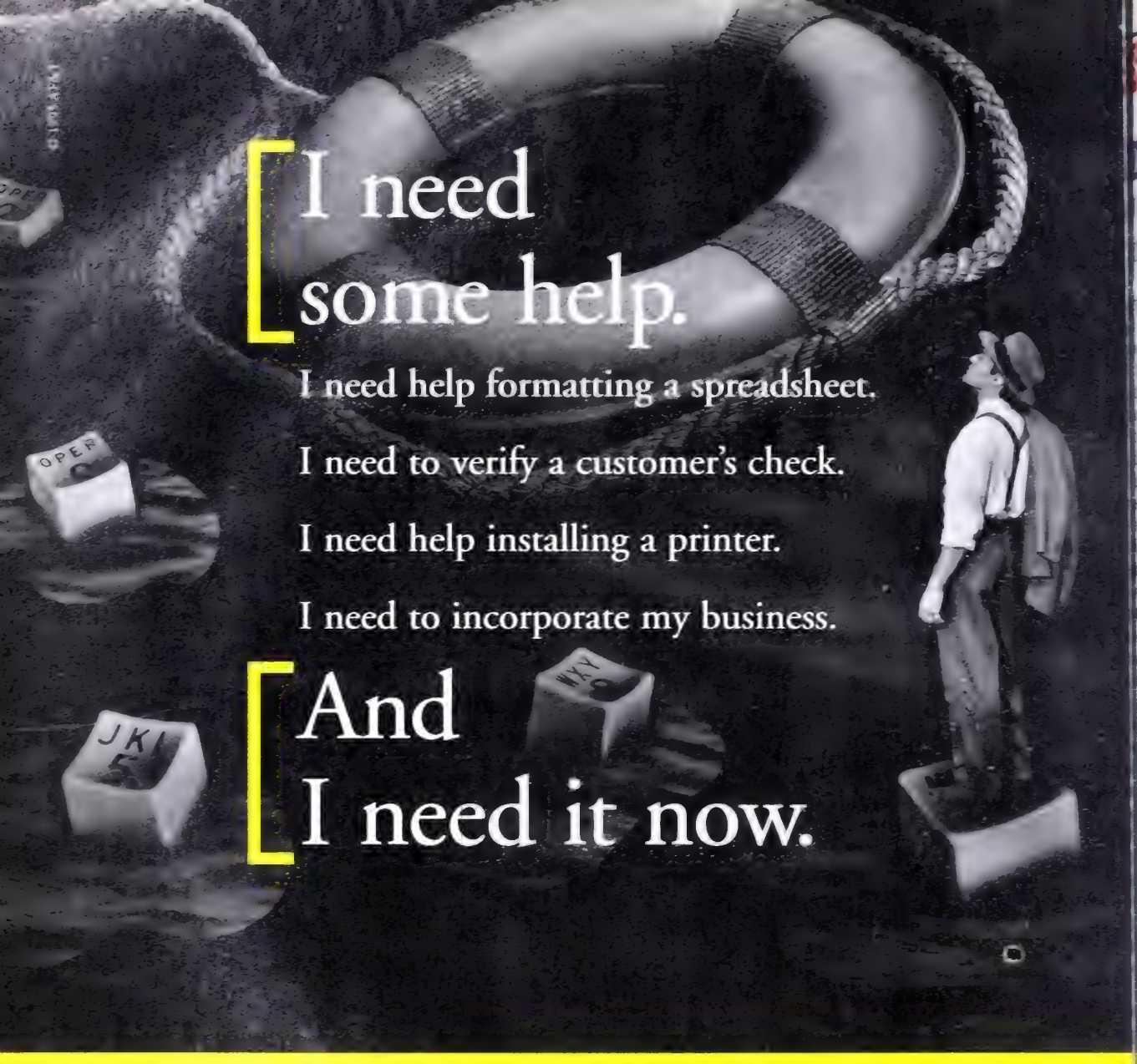

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ONG VIEW Even some researchers whose rk has set off international alarm bells think tual reality's potential outweighs the risks

rienced pilots are most vulnerable side effects when using the most stic flight simulators.

this case, by being immersed in lation that lacks physical effects as inertia, "the pilot has opened ther neural pathways in the brain, rent from what is used in real ," says VR pioneer Thomas A. Fur- director of the Human Interface nology Lab at the University of ington in Seattle. That creates con- and can result in flashbacks hours or days after the simulation is over.

ET STUDIES. Probing cybersickness ugh because the experience is so ective. And each symptom probably multiple causes, which in turn n multiple side effects, says Dr. rt Kennedy, a vice-president at Es- Corp. in Columbia, Md., which in- gates "human factors" for the mili- With the same experience, "one n may end up with nausea and an- with strained eyes," he says. Un- nately, much of the research to was sponsored by private compa- that refuse to share it. The result: igners can't correct for mistakes have already been made by other anies," says Edinburgh's Wann.

rhaps because the complex fabric lictions is so poorly understood, no rnment agency even attempts to late VR gear. But private compa- are trying to head off potential laints. In developing lightweight ggles called i-glasses, Seattle-based al i-O Inc. deliberately left clear ng space around and under the im- projected in front of the eyes. "Al- nobody experiences nausea," says ident Linden Rhodes. Likewise, s single-eye device lets the user tabs on ordinary reality.

purists, these solutions fall far of the full-immersion experience. largest players are spending big s to resolve health issues without romising. In Japan, Sega engineers readied a new HMD. Paired with powerful, 32-bit Saturn machine just released in the U.S., it will er a "knock-your-socks-off experi- " Payne says. Japanese game fanat- re already testing a version of it in les in Tokyo. Sega is mum on the launch. But Payne promises "a battery of new [health] tests" before releasing a consumer version here.

Sega isn't alone. Working with SGI, Walt Disney Co. spent upwards of $4 million on the experimental Aladdin Magic Carpet Ride at Disney World's Epcot '95 in Orlando, Fla. SGI's Larson-Mogal calls it "the most effective, comfortable VR system" he has tested. It is also the most closely monitored. Since the exhibit opened last July, each of the 35,000–40,000 "riders" has filled out a survey, including details on side effects. The results? "It's right in the range of a roller coaster or other thrill rides," says virtual-reality studio co-director Jon Snoddy, who observes the riders on live video from his office at Disney headquarters 3,000 miles away. Snoddy doesn't fret about people getting sick on verisimilitude, like the fighter pilots, because "for most people, reality doesn't include flying carpets."

Even some researchers whose work has set off international alarm bells think the rewards society will reap from VR will outweigh the risks. At Britain's University of Nottingham, Virtual Reality Applications Research Team director John R. Wilson has spent four years studying VR hazards, supported by the governmental Health & Safety Executive. In a report last year probing VR woes, he also listed benefits the technology bestows, including ergonomic assessments of workplaces, engineer training, and surgical applications.

But Wilson doesn't repudiate the litany of users' physical complaints. And as VR spreads through society, these may be just the beginning. Computer networks let users change their personalities, backgrounds, and genders in cyberspace. It's the stuff of science fiction, but virtual reality will let them flesh out these alternate personae and project these creations into virtual bodies or any other virtual space. "This is a totally new phenomenon," says McGill's Cartwright. "It may bring new kinds of emotional disturbances and mental illnesses." Long before that happens, however, manufacturers will have to grapple with complaints—and litigation—that are just around the bend.

By Neil Gross in New York, with Dori Jones Yang in Seattle and Julia Flynn in London

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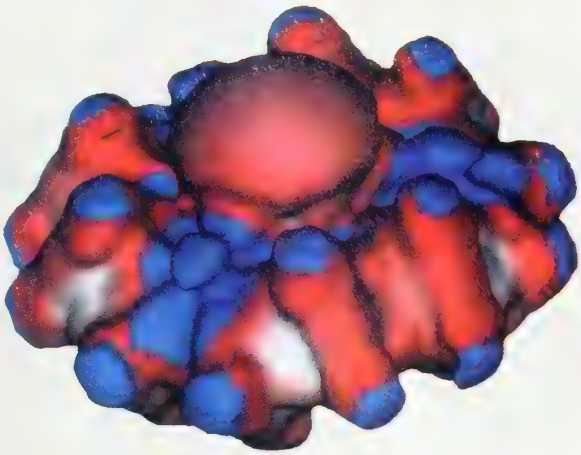
D BY PETER COY

E-CHIP WONDER: EO AND OR THE PC

NG YOUR PERSONAL ter into a multimedia e can be an exercise in tion. nVidia Corp. of vale, Calif., hopes to multimedia easier—eaper—by putting the ns of several plug-in onto a single chip. s chip can play three undtracks, rotate a 3-nputer model, and a movie, all at once. knocks the socks off body who sees it," Robert A. Csongor, s director of strategic ing.

main trick is a new creating images. In-of assembling them ttle polygons, nVidia arger curved shapes ore closely resemble ntours of most real-objects. Fitting them er takes less computer y and processing. Look ltimedia boards with w chip this summer—er $200. Diamond Mul- Systems Inc., which graphics-accelerator , says it expects the chip to "transform to-PCs." One drawback: p performance, exist-D graphics programs be reformatted.



TINY CROWNS FOR A KING-SIZE CLEANUP

ENERGY DEPT. SCIENTISTS HOPE A CROWN-SHAPED molecule will help clean up 100 million gallons of highly radioactive waste left over from 50 years of nuclear weapons production and research. Much of that waste is sitting in aging tanks—some of which are now leaking.

Scientists at Pacific Northwest Laboratory in Richland, Wash., are working on a class of molecules, called crown ethers, that are made of carbon and oxygen and hold metal atoms in their centers. If crown ethers can be tailored to grab cesium and strontium ions, the most worrisome components in the stored waste, the remaining fluid could be treated and disposed of more economically as low-level waste.

Theoretical chemists David F. Feller and Mark A. Thompson are using computers to study a typical crown ether, 18-crown-6, shown here with cesium. Once they understand how 18-crown-6 holds metals, they should be able to use computer simulations to suggest crown ethers that are better suited to cesium and strontium. New parallel supercomputers, expected within a year, should shorten the time for each molecular simulation from a month to a day.

EXTRA CO_2 ISN'T ALL BAD

SOME GOOD NEWS ON THE climate front: In simulating the expected 21st century climate, Agriculture Dept. researchers in Arizona have found crop yields improve substantially when the atmosphere contains extra carbon dioxide. Plus, the crops seem to absorb much of the excess CO_2, which may alleviate global warming.

The tests in a 20-acre field at the U.S. Water Conservation Laboratory, near Phoenix, were the largest ever outside of a

greenhouse. Researchers blew pure carbon dioxide gas—the same kind used to carbonate soda—onto the crops. When carbon dioxide levels were raised 50%, cotton yields rose 50%, and wheat yields rose 10% to 25%, says Bruce A. Kimball, a USDA soil scientist. The cotton crop got by with no increase in water, and wheat used 10% less.

The tests may also shed light on why atmospheric CO_2 hasn't risen as much as expected from the increased burning of hydrocarbons. Cotton in particular absorbs excess carbon rapidly, according to Steven W. Leavitt, an associate professor at the University of Arizona's Laboratory of Tree-Ring Research. It's unclear whether natural vegetation does as well.

ND X-RAYS: YS MEASURE ENT

S ARE GREAT FOR ng the outlines of a object, such as a gun itcase. But they don't what makes up the Researchers at AT&T aboratories in Holm- .J., have built an in-ent that reveals the s composition by hit-with a different fre-of energy: a "T-ray."

Terahertz rays, or T-rays, are electromagnetic pulses of around 1 trillion cycles per second. That's in the frequency range above microwaves and below infrared light. Researchers led by Martin C. Nuss, a technical staff member, create short pulses consisting of a broad band of T-ray frequencies and hit materials with them. A detector examines how the various frequencies are absorbed or dispersed by the material. The signals are converted to audio waves and analyzed with Bell Labs' speech-recognition technology. The researchers have created a library of characteristic signals for various materials.

T-rays could be used to measure fiber and metal content in brake pads, metals in semiconductors, and water content in cookies or plants.

CLOCKWISE FROM TOP: SIMA ZATCHI; COURTESY OF PACIFIC NORTHWEST LABORATORY; PHOTOGRAPH COURTESY OF AGRICULTURE RESEARCH SERVICE, USDA; ILLUSTRATION BY DAN VACCARINO

TAXES

A CAPITAL-GAINS CUT WON'T GORE WALL STREET

There may be a brief sell-off, but long-term benefits outweigh the costs

Perhaps it's just coincidence: A few weeks after the Republicans' dramatic sweep into power, the stock market starts a rally that carries the Dow Jones industrial average up nearly 900 points without so much as a hiccup. High on the GOP's list of promises is slashing the 28% maximum tax rate on capital gains. How much of the market's climb is attributable to the sweet smell of a tax cut is an open question. After all, lowering the rate raises investors' returns, reduces the cost of capital for corporations, and should create jobs and prosperity.

But already, some market watchers are warning there's a short-term price to pay for such long-term benefits. They argue stocks could tumble when the new tax rate goes into effect, as investors take advantage of the cut to cash in their hefty gains.

POWERFUL PROD. "People who have sizable gains are going to see this as an opportunity to liquefy their portfolios," notes Steven H. Abernathy, director of the private client group at Cowen & Co. Indeed, perhaps one reason the market has gone up for eight months without a correction is that investors are waiting for the tax cut. Says David G. Shulman, stock market strategist at Salomon Brothers Inc.: "Cut capital-gains tax, and you invite people to sell."

Of course, that's the point: to prod investors to move capital from less productive to more productive uses. But even if sellers reinvest their proceeds, they can't reinvest them all: They must set aside some money to pay capital-gains taxes. "Unless you can get 100% of the money back into stocks, the market could fall," says Jeremy J. Siegel, professor of finance at the Wharton School of the University of Pennsylvania, who advocates a cut nonetheless.

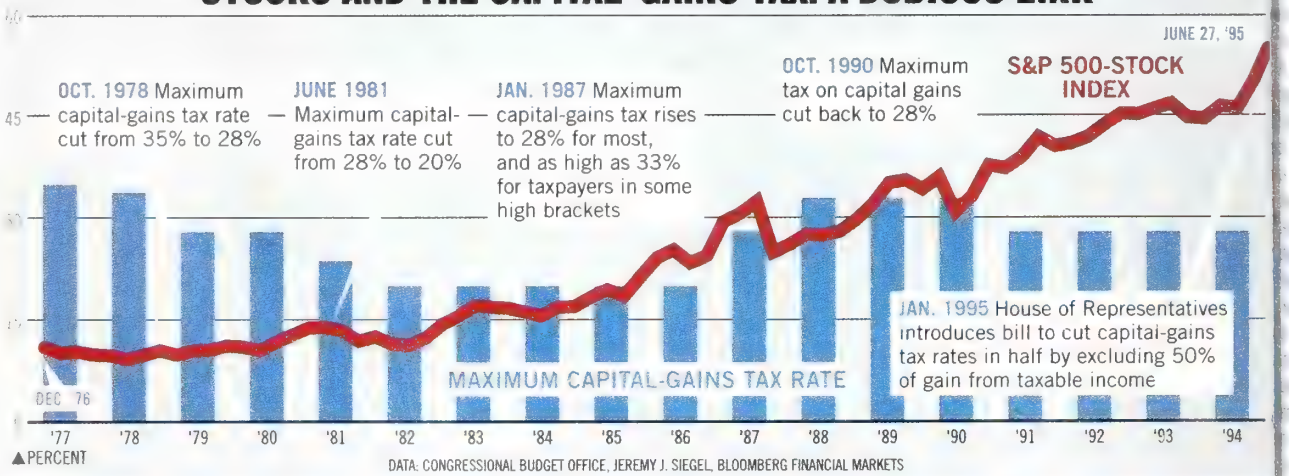
In theory, a sell-off sparked by lowering the capital-gains tax makes sense. But in reality, it is not a foregone conclusion. For one thing, a lower capital-gains tax could also attract new dollars to make up for what has been pu out of the market. Factors such as porate earnings, interest rates, and economy are more important—eve the short run—than capital-gains ta

BUT WHEN? Details won't be wor out until autumn, but the betting is it will exclude half of any capital from taxation and apply the taxpay regular income-tax rate to just the er half. So wealthy investors in 39.6% bracket will see the rate o capital gain drop from the current 2 to 19.8%. Investors of more mod means who now pay 28% would see rate drop to 14%. The House of Rep sentatives' bill also calls for index capital gains to inflation, so invest will not be taxed on inflation-genera profits. The indexing plan, conside costly and complicated, is less cert to be enacted, but its chief backer an influential one: Ways & Means Co mittee Chairman Bill Archer (R-Tex

And there's still no certainty ab when the lower rate would go i effect. The House bill makes it retro tive to Jan. 1, 1995, but selling a st today banking that the tax will be the new low rate is a risky propositi Most likely, the effective date would

> A lower capital-gains rate could well attract fresh dollars into the stock market

STOCKS AND THE CAPITAL-GAINS TAX: A DUBIOUS LINK



DATA: CONGRESSIONAL BUDGET OFFICE, JEREMY J. SIEGEL, BLOOMBERG FINANCIAL MARKETS

ERIC HOFFMANN-KW

Congress agrees on the final bill. ngress has lowered capital-gains three times in the past two es, and there's little evidence that its had much impact on stock pric- the short term (chart). For in- e, in 1978, the top rate fell from o 28% for assets sold after Oct. 31 at year. But the market plunged e the effective date, so anyone sell- ad to pay taxes at the old and r rate. The reason for the "early" ff: Inflation was rising rapidly and 'ederal Reserve tightened credit iked interest rates.

ie, stocks tumbled nearly 12% in ree months following the 1981 tax when the maximum rate was fur- reduced to 20%. But you can hard- ime that on investors' cashing in At the time, the economy was in sion, and short-term interest rates 15%. In such an environment, eq- are ugly. The maximum rate went up in 1987, but stocks have done mingly since then, as companies restructured, trimmed costs, and l profit margins. Perhaps most im- nt, interest rates have come down.

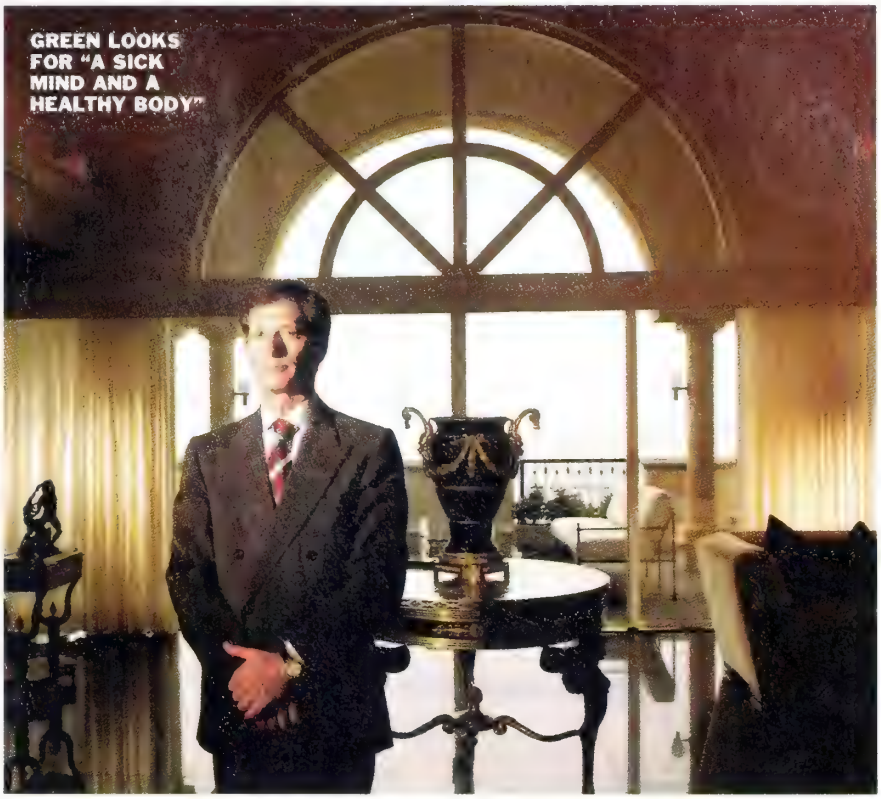
SHMAX. Moreover, the structure e equity market has changed dra- ally in the past 15 years. Today, one-third of the money in the market is controlled by invest- managers, who have little concern xes. Pension funds don't pay taxes vestment earnings, and mutual- managers trade as they like and the tax liabilities along to share- rs. And even if they control only ird of the equity, pension-fund and al-fund managers account for most trading activity.

me fear that venture capitalists take a capital-gains cut as an op- nity to cash out and swamp the et with initial public offerings. But re capitalists dispute that—and that much of their money comes tax-exempt investors, too.

en individual investors who can advantage of the tax cut may not a hurry to cash out. Those saving ich long-term goals as education etirement may be content to stay Why pay any tax if you don't need oney now? Elderly investors have less incentive: When stock passes eir heirs, it escapes the capital- bite altogether.

ssimists may be right that the et will stumble under the weight lighter tax bite. But if so, it's a price for investors to pay for the term benefits that will be un- ed.

Jeffrey M. Laderman in New with Russell Mitchell in San cisco



GREEN LOOKS FOR "A SICK MIND AND A HEALTHY BODY"

BRIAN SMITH/OUTLINE

REAL ESTATE

WORLD FOR RENT. CALL STEVEN GREEN

He's amassing overseas properties for lease to U.S. companies

Mike Milken invests in his deals. So do Steve Wynn of Mirage Resorts, Larry Ellison of Oracle, and Rupert Murdoch. Commerce Secretary Ron Brown invites him on trade missions. Bill Clinton gives a party for him and his wife on their 28th wedding anniversary and puts them up in the Lincoln bedroom. Who is this Steve Green?

Most people have never heard of the 49-year-old real estate maven. But Steven J. Green's empire is growing fast. His personal holdings include 120 retail properties across the U.S., which he estimates are worth more than $500 million. Through partnerships, he has a stake in a real estate company in Britain that owns 22 office properties in European business centers, an industrial project in Eastern Europe, and a retail development in Moscow's Red Square. And he's the chief executive of Astrum International Corp., a $1 billion company that owns the Samsonite, American Tourister, and Culligan brands.

Green's connection with Milken goes back to the halcyon days of junk bonds, when Drexel Burnham Lambert Inc. financed a bond issue for a real estate transaction of Green's. But it wasn't until last year that Milken put any money into one of Green's ventures. The Milken Family Trusts—the trusts for the children of the former junk-bond king—invested an undisclosed amount with Green, who plans to raise $1.5 billion to build one of "the world's largest real estate organizations." Milken, who served time in a federal prison after pleading guilty to securities-law violations, is barred from the securities industry.

PRESIDENT'S MAN. Green has political connections at high levels. He got involved with the Clinton campaign early on, and one of Astrum's subsidiaries was a sponsor of the Presidential inaugural gala. Since then, Green has gone on numerous trade missions with Ron Brown. Green was recently appointed to the President's Export Council, which advises the Administration on trade.

Clearly, Green's ventures could prove

Green concedes that the Milken connection helps. "It's like chicken soup: It certainly didn't hurt"

risky. His international experience is limited to the past few years, and many of the world's real estate markets are still in the doldrums. Nonetheless, Green believes he can fill a growing market need. Based on his own experience and on a survey of U.S. companies, Green thinks that businesses looking to expand into untapped foreign markets are put off by the high costs and hassles of building or buying facilities overseas. His solution is to create a fund that would build properties to a U.S. company's specifications and lease it back to the company.

OLD HAND. Green's venture is a mouthful: Auburndale Central & Eastern European-Newly Independent States Property Fund. CEE-NIS plans to raise $240 million to develop industrial facilities in areas such as Ukraine, Poland, and the Czech Republic. To try and make the venture more palatable to lenders, Green got the Overseas Private Investment Corp. (OPIC), a governmental agency that promotes overseas investment, to provide a $240 million loan guarantee. He has commitments for $80 million in equity and says his lender, Bank of Boston, will raise the other $160 million in debt.

Green is an old hand at dealmaking. At 25, he was hired to restructure an overleveraged company called Robino-Ladd Homes and sell off its assets. Next was a department store chain, which he bought, restructured, and sold off. Green looks for deals where there is a "sick mind and a healthy body"—a company with strong real estate, but a bad balance sheet.

Early in his real estate dealings Green formed an alliance with controversial financier Meshulam Riklis. In 1987, Riklis brought in Green as a consultant to Astrum, which was then called E-II Holdings. In 1990, when E-II was losing money and bondholders were calling for Riklis' ouster, he negotiated to turn leadership over to Green. While Green wasn't able to prevent E-II from going into bankruptcy, he is credited with keeping the company afloat until it could emerge as a healthier entity, well-positioned for growth. He is now trying to raise $190 million in debt in order to spin off Culligan and focus on Samsonite.

While Green may be preoccupied with his job at Astrum at the moment, he has plenty of time, it seems, to devote to his private ventures. His employment agreement requires only that he spend 50% of normal business hours—defined as a 40-hour workweek—tending to its business. "There was a concern that a guy with that many interests would spend enough time on [Astrum]," says a spokesman for Green. "But it's not an issue. He works 60-hour weeks there."

In Green's biggest real estate deal to date, a partnership he formed won the bidding for Heron International, paying almost $800 million for the financially troubled commercial real estate firm. "They had terrific assets and terrific debt," says Green. "We said that if we could restructure the debt, we cc restructure the properties." The d gave Green and his partners 22 prop ties across Europe and an operat company—the beginnings of a Europ presence. Green's spokesman notes t while people speculate that Milken lin up the investors—many are form Drexel clients—it was Green who fo the deal and solicited investors.

NEAR MISS. Earlier this year, Gre thought he was close to establishin beachhead in Canada as well. One Canada's largest real estate compan Bramalea Ltd., was on the verge bankruptcy. After intense negotiatio the deal didn't work out and the com ny went into bankruptcy.

Green's role as CEO of an internati al consumer-products company oft opens doors for his private deals. "T international exposure from Astrum me thinking about my real estate," s Green. Opening a Samsonite store Red Square in Moscow in 1992 p Green in a good position when GU Moscow's department store, wanted p posals for a renovation and moderni tion of its historic arcade. As CEO Astrum, Green was in Moscow in Ap 1994, with Secretary Brown as part o U.S. Presidential Business Developm Mission to the Russian Federation, a a letter from Brown was included Green's proposal. Green's team was lected to do the job. Milken is also miliar with the site, having toured G last summer.

Green objects to people making much of the Milken connection. "I never hidden the fact that he is friend," says Green. "I have zero apologize for, but I do resent headlin that say it's Milken managing the bu ness, that he's behind certain deal Green concedes the Milken name m have helped in marketing: "It's li chicken soup: It certainly didn't hurt

What's next for Green? He thinks OPIC connection provides a unique nic and he's looking in France, Italy, Spa even Mexico. He's also eyeing a f real estate investment trusts (REITS).

Soon, Green hopes to take a breath and spend his 50th birthday on his 1 foot yacht. Hmm—sounds a little t quiet for a world traveler. Maybe B and Hillary can climb aboard and h him celebrate.

By Suzanne Woolley in New Yo

A $1.5 Billion Empire In the Making

AUBURNDALE PROPERTIES Green's personal portfolio of 120 shopping centers and other retail properties in the U.S. are owned in partnership through this private acquisition and management company.

CENTRAL & EASTERN EUROPEAN-NEWLY INDEPENDENT STATES PROPERTY FUND A fund to build industrial warehouses and other business facilities overseas. The Overseas Private Investment Corp. will provide a $240 million loan guarantee. Green has commitments in excess of $80 million in equity. The Bank of Boston will raise the rest in a debt issue.

HNV ACQUISITION L.P. This private partnership won the bidding for Heron International, a distressed, overleveraged commercial real estate company based in Britain. HNVA paid almost $800 million for the company, which owns properties in business centers of major European cities.

GUM 2000 The historic GUM Department store in Moscow's Red Square wants a makeover. A team organized by Green has been selected to do the renovation and modernization project.

DATA BUSINESS WEEK

BANKING

WHO KNEW WHAT, WHEN, ABOUT FIRST FIDELITY?

Banco Santander may face questions from regulators

When First Fidelity announced on June 19 that it would sell out to First Union Corp., based in Charlotte, N. C., for $5.4 billion in stock in the biggest bank deal ever, Spain's Banco Santander, First Fidelity's largest shareholder, could hardly have been more pleased.

With a 30% stake in First Fidelity Bancorporation, based in Lawrenceville, N. J., Banco Santander stands to be $365 million richer if and when the $64-per-share transaction is completed. The $64 deal price was 31% higher than the previous trading day's close. All told, it would have parlayed its $650 million investment into well over $1.5 billion.

But before the final champagne toasts are exchanged, say securities lawyers, the deal may face scrutiny by regulators. Banco Santander raised its First Fidelity voting stake from about 25% to 30% this spring, a period when First Fidelity was considering, among other options, selling out to a larger bank. The issue: whether the Spanish bank, which holds two seats on the First Fidelity board, bought First Fidelity shares while in possession of "material, nonpublic" (a.k.a insider) information.

No charges have been filed. But John F. Olson, a securities law partner at Gibson, Dunn & Crutcher in Washington, says that "given the close time proximity of the Santander purchases and the announcement, it would not surprise me if the SEC and the New York Stock Exchange took a look at who knew what, when." The Securities & Exchange Commission declined to comment. A spokesperson for the New York Stock Exchange says: "It's our policy not to comment on specific cases." Gonzalo de las Heras, head of Banco Santander's U. S. operations and a First Fidelity director, says: "Santander did not know in advance that First Fidelity would be matched with First Union."

Banco Santander began accumulating its First Fidelity stake in 1991, with the goal of eventually acquiring 30% of the voting stock. After buying 24.8% by December, 1994, it obtained approval from the Federal Reserve Board to acquire the remaining 5% or so, which it did between February and May 26.

First Fidelity, according to Anthony P. Terracciano, the bank's CEO, formulated a strategic plan around January, 1994, that called for either continuing to make modest acquisitions, buying a large bank, or selling out to a larger bank. Terracciano says that in mid-April of this year, he asked a panel of five directors, including de las Heras, to review those options. At a June 19 press conference, Terracciano said that "we had been going through a very intensive analysis of our strategic options for the past three months." But another high-level source at the bank, who asked not to be named, recalled that Terracciano made his request in late January or early February.

Another source close to the transaction says that Terracciano and Edward E. Crutchfield Jr., First Union's CEO, had been talking "on and off" for years. At the press conference, Crutchfield said: "I wanted to do this for three years with this guy." First Union declined to comment further for this article. But Terracciano said merger talks only became "very intensive" during the first week in June. He added that he didn't recommend to the board that it accept an offer from First Union until June 15. H. Rodgin Cohen, the partner at law firm Sullivan & Cromwell who advised First Fidelity, says that "no decision had been made to change the basic strategy" before June 2.

THE TIMING. Olson of Gibson Dunn says that if an inquiry establishes that Santander, as a buyer of First Fidelity shares, knew significantly more than the average investor about what Terracciano had up his sleeve at the time, Santander could be vulnerable to charges of wrongdoing. The fact that Santander announced its intention to buy the additional shares may not be a defense. "The Fed approval and purchase schedule is a possible explanation for the timing," says Mary Lynn Durham, a banking partner at law firm Jones Day Reavis & Pogue in Cleveland. "But if [Banco Santander] purchased on insider information that doesn't get them off the hook." Her view is supported by a 1993 appeals court ruling in *U. S. vs. Teicher*, the so-called "Yuppie Five" insider-trading case, which involved intended purchases.

Some lawyers say First Fidelity probably should have advised Santander to stop accumulating shares as soon as there was any inkling that a change of direction might be in the offing. All of which could give new meaning to the phrase, buyer beware.

By Phillip L. Zweig in New York with Joseph Weber in Philadelphia and Amy Barrett and Michael Schroeder in Washington

Banco Santander's Rich Deal

MARCH, 1991 Spain's Banco Santander agrees to buy up to 30% of First Fidelity stock. Two Santander executives to join Fidelity board.

EARLY 1994 First Fidelity completes strategic plan consisting of three options: selling out to a larger bank, acquiring a big bank, or continuing to make modest acquisitions.

DECEMBER, 1994 Santander's stake reaches 24.8%.

JAN. 17, 1995 Santander receives Fed approval to buy final 5%.

FEBRUARY Banco Santander begins buying remaining shares in open market.

MID-APRIL First Fidelity CEO Terracciano says he told five directors on advisory panel, including a Banco Santander executive, to review the bank's strategic options.

LATE MAY Banco Santander completes final share purchase.

JUNE 4–5 Talks intensify between Terracciano and First Union Chairman Crutchfield.

JUNE 15 Terracciano recommends to board that First Fidelity sell to First Union for $5.4 billion in stock.

JUNE 19 Deal announced.

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COMMODITIES

DEALS TOO SWEET TO BE TRUE

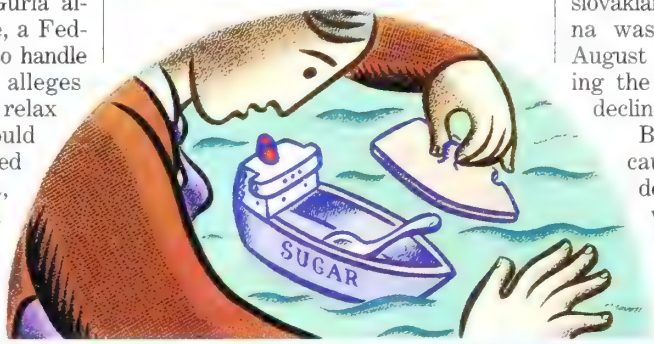
As prices soar, so do scams involving nonexistent sugar

It looked like a great deal. Last fall, Guria, a private company based in the Republic of Georgia, was trying to buy a large quantity of sugar on behalf of the Georgian government. The sugar was to be distributed at subsidized prices in the former Soviet state. Although Guria had little experience in international trade, it arranged to buy 2,900 metric tons of sugar at about $265 a ton—far below market prices.

A little too great a deal, it turned out. According to an affidavit filed by the U.S. Secret Service, which is investigating the sugar trade, Guria allegedly hired William G. Moore, a Federal Way (Wash.) businessman to handle the deal. The Secret Service alleges that Moore convinced Guria to relax the terms under which he could collect on a letter of credit issued by a bank. Letters of credit, which are used extensively in international trade, guarantee that the seller will receive the purchase price. Typically, banks will pay the seller if they are assured the goods have been shipped. Under the terms of Moore's letter of credit, the Secret Service contends, he was able to withdraw $768,500 in late November, before the sugar was to be delivered. It never arrived.

Rob J. Crichton, an attorney for Moore, declined to comment. Moore has not been charged in connection with the sugar deal. "The loss is taken by the Georgians," contends Guria's New York-based attorney Jay H. Schafrann. "And they can ill afford it."

Unfortunately, such tales of sugar deals gone bad are sweeping the globe. The Commercial Crime Bureau of the International Chamber of Commerce, a fraud watchdog group based in Britain, put out a report earlier this year warning that sugar frauds are proliferating. Already the scam may have bilked banks and investors out of $500 million, according to an estimate by the Institute of International Banking Law and Practice Inc., based in Gaithersburg, Md. "There has to be an international effort," says S Lin Kuo, assistant director of the CCB. "It is beyond any one nation's ability to investigate."



Scams involving the sale of nonexistent commodities are hardly new. Similar frauds involving products ranging from crude oil to cigarettes have sprung up over the past decade. But sugar now appears to be the favored bait. The reason is simple: Tight supplies worldwide have driven up costs sharply, making below-market deals especially enticing. Booming consumer economies in countries such as China and India have increased demand for sugar there. At the same time, production has dropped in countries like Cuba and Russia. The result: World raw sugar prices have increased 60% since 19

Sugar scamsters are also benefit from the breakdown of the former viet Union and the emergence of private markets in China and elsewh While purchases of commodities sugar were once controlled exclusiv by seasoned government officials, d are now handled by often inexperien entrepreneurs.

FORGED DOCUMENTS. Although buy typically take the hit when a scam successful, bankers issuing letters credit have been hoodwinked. In 19 National Westminster Bank PLC paid $1.8 million on a letter of credit to I ian businessman Carlo Caresana. Brit law enforcement officials say Cares used forged documents to show the b that 5,000 metric tons of sugar were route to a buyer in Saudi Arabia. I before National Westminster could lect the money from the state bank Czechoslovakia that had issued the let of credit, the Saudis discovered the sh ment of sugar didn't exist. The Czec slovakian bank refused payment. Care na was convicted in the scam August in a British court and is appe ing the verdict. National Westmins declines to comment.

Banks are becoming increasin cautious about financing sug deals. Says Vincent M. Maulella vice-president with Chemi Bank: "A number of banks ha said they won't be involved transactions other than w experienced sugar traders."

The ICC and bankers are working ways to get the word out on the frauds. But there is some concern t by publicizing the problem, the ca paign may simply tip off con arti about how to sweeten their pitch. Der G. Moon, secretary of the Refined Su ar Assn., says pitches are becomi more sophisticated. "That is what were frightened of." But for banke and regulators who have watched sc artists make a killing, going public wi their warnings may be the only answ

By Amy Barrett in Washington w bureau reports

Anatomy Of A Swindle

THE PITCH

An intermediary promises an inexperienced buyer that he can arrange for the purchase of a large quantity of sugar at up to 40% below current market prices.

THE DEAL

The buyer agrees to put up a bank-issued letter of credit to guarantee that the seller or intermediary can collect the funds. The seller can get the money when he presents certain documents, usually a certificate that proves the sugar has been shipped.

THE PAYOFF

The scamster presents false or forged doc umentation to collect the sugar payment. But when the ship arrives, there is no cargo of sugar for the buyer.

DATA: COMMERCIAL CRIME BUREAU OF THE INTERNATIONAL CHAMBER OF COMMERCE

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BY GENE G. MARCIAL

MERCER: NOT JUST PAPER PROFITS

This is investment manager Graham Tanaka's kind of company. Shares of Mercer International (MERCS) have rocketed to 20 lately, up from 12 in mid-January, and he reckons they'll hit 35 in a year. "It fits our portfolio of undervalued stock with a strong growth kicker," says Tanaka, whose Tanaka Capital Management has gained 38.9% so far this year, vs. 21% for the Standard & Poor's 500-stock index.

What's so hot about Mercer, a holding company with interests in paper and finance? It's still a stock short-sellers love to hate: Short interest in Mercer is 1.5 million shares, or 21% of the stock's float. The shorts' contention: Earnings stem mainly from tax breaks. But the shorts may be fighting heavy odds this time, judging by the stock's steady ascent and big leap in earnings.

THE SHORTS MAY GET SHORTED

DATA: BLOOMBERG FINANCIAL MARKETS AND TANAKA CAPITAL MANAGEMENT

One of three things could happen, say some big investors: (1) A U.S. paper company with worldwide operations will make a bid for Mercer; (2) a Korean investment firm, Shin Ho Group, which has a 30% stake in the two German pulp-and-paper mills Mercer acquired in 1993 and 1994, will buy a sizable stake in Mercer; (3) Mercer's financial units, mainly lending and insurance services, will be sold or spun off.

Bulls say Mercer has gone "from black sheep to golden cow." In 1993, Mercer bought eastern Germany's Dresden Papier, a maker of wallpaper, recycled printing paper, and paper for corrugated board, and in 1994 it acquired Zellstoff-und-Papierfabrik Rosenthal pulp mill, also in eastern Germany.

Mercer rehabilitated the two plants and made them profitable, says Tanaka. The result: Mercer's bottom line improved quickly. The German government provided Mercer with subsidies for helping to privatize Germany's paper industry. "Even without the company's tax-loss carryforward of $227 million, profits would still come to $2.35 a share for 1995 and $3.25 for 1996," he says.

Ted Wolff, an analyst at the investment firm Mercer, Bokert, Buckman & Reid (no connection), says Mercer is benefiting from a strong pulp-and-paper demand cycle, partly caused by the cutback in worldwide production. He sees the big paper outfits expanding through acquisitions, mainly overseas.

A WINDFALL FROM WORKERS' COMP

No, Work Recovery (WORK) isn't a program Newt Gingrich wants to cut. It's a stock that soared from 2 to 6⅛ in just over a month. Its move is "far from finished," insists a New York money manager who bought at 2. "We expect it will double from here as [the company] gets more contracts."

All the fuss is about the flagship product—ERGOS Work Simulator, a software-driven system that does two critical tasks: sizing up a worker's ability to perform essential jobs, and, in the event of injury, determining when a patient might return to the job.

Demand for ERGOS is being spurred by exploding workers' compensation costs, says Ken Peterson, an analyst at *The Red Chip Review* in Portland, Ore. "Each year, U.S. businesses and governments lose as much as $80 billion in lost wages, lost productivity, climbing insurance premiums, and fraudulent claims," he notes. So Work's products, designed to contain and even roll back workers' comp costs, is welcome news, he says. Apart from ERGOS, Work makes machines that provide exercise to an injured worker as part of work therapy. The company also runs a network of 38 testing clinics.

The stock caught fire when big contracts for ERGOS rolled in. One was from Wayne-Oakland Medical Centers in Detroit on June 1. Another was from the State of California, which wanted limited testing on the Social Security disability claims it processed.

On June 27, Work agreed to set up Work Recovery Far East to cover such nations as China, India, and Thailand. Work Far East expects to generate $14 million in licensing fees and $[illegible] million in ERGOS sales over two year[illegible]

Red Chip's Peterson estimates fi[illegible]cal 1995 sales will jump to $37.3 millio[illegible] up from $24.6 million in 1994. Ne[illegible] year, he expects sales of $53 millio[illegible] The analyst sees Work making 30¢ [illegible] share this year and 40¢ in 1996, u[illegible] from 17¢ in 1994.

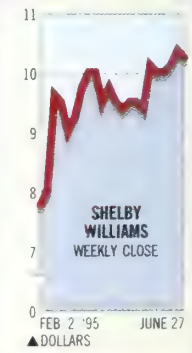
GOOD SEATS FOR THE BUILDING BOOM

Don't be surprised if you've had [illegible] tough time booking a hotel, eve[illegible] as room rates are leaping. Hotelier[illegible] are scrambling to put up new facilitie[illegible] because of the jump in demand. S[illegible] says investment pro Jerry Levine, wh[illegible] has been scouting for stocks that seiz[illegible] on this trend. He thinks Shelby Wi[illegible]liams Industries (SY) is one solid be[illegible] It's now trading at 10, up from 7 i[illegible] February. Shelby is a leading make[illegible] of furniture for the lodging, restauran[illegible] college, and health-care markets.

Levine, who heads the Emergin[illegible] Growth Group at Josephthal Lyon [illegible] Ross, says that, apart from Shelby's im[illegible]proving business, there is another facto[illegible] a few pros are focusing on: a buyout.

A portfolio manager at one Ne[illegible] York investment firm argues that [illegible] major furniture maker is thinking [illegible] bidding for Shelby because of its spe[illegible]cialty furniture products. He think[illegible] this outfit and Shelby have held informal talks. In a buyout, Shelby is worth 17 to 18 a share, he says. Manny Steinfeld, 71, Shelby's chairman, declined to say whether he had been approached. But the money manager says: "If an offer comes in at, say, 17 to 18 a share, [Steinfeld] would go for it."

IN THE FRONT ROW FOR A BUYOUT



DATA: BLOOMBERG FINANCIAL MARKETS

Levine notes that, in the quarte[illegible] ending June 30, backlog orders jumpe[illegible] to $34 million, up from last year's $2[illegible] million: Shelby recently snagged a con[illegible]tract for seating at Atlanta's new build[illegible]ings for the Olympic Games. He fig[illegible]ures Shelby will make 72¢ to 75¢ [illegible] share this year and 87¢ to 90¢ nex[illegible] year, up from last year's 47¢.

UTIVE SUITE

AN THIS THRIFT'S IFTS BE MENDED?

ical tale: Sell-off pits shareholders against managers

e showdown came at board meeting on Iov. 23, 1993. Tired of deadlocked board ad stymied his plans Sovereign Bancorp rederick J. Jaindl, the chairman and t shareholder, sum- directors to a sur- ession. His grandfa- demeanor gone, he d out resolutions to ie-breaking ninth di- and hire an invest- banker to arrange a When the motions , Jaindl stunned his ues by ruling that a ote cast by his chief nt on the merger is- EO Jay S. Sidhu, 43, omehow invalid be- he was an employee. ereign's lawyers later d Jaindl's action. But a year and a half lat- ndl's failed coup still the $6.8 billion thrift, n Wyomissing, Pa. The thrift—at urging—later filed suit against 67, and two supporters on the alleging that they were in a e" to sell the bank without full consent. Jaindl countersued, al- that Sidhu and his allies at Sove- ad "sabotaged" efforts to study a They later dropped the suits as f a cease-fire agreement, but suddenly resigned on Apr. 24. In r to the board, he cited an "in- able sense of mistrust and hostil- Sovereign.

ereign's saga crystallizes the con- us issues springing up as the g industry shrinks. Bank managers' desire for independence is colliding with shareholders' quest for returns, especially at banks and thrifts like Sovereign—midsize institutions too small to survive and too big to be overlooked. In February, shareholders, including investor Michael Price, forced management at Michigan National Corp., with $10 billion in assets, to agree to sell the bank. In April, managers at Compass Bancshares in Birmingham, Ala., with $9 billion in assets, fended off a dissident shareholder's proxy fight to force a merger.

EX-CHAIRMAN JAINDL, 67, AT HIS FARM: *"The race isn't over"*

In Sovereign's case, Jaindl claims that Sidhu is afraid of losing his job, one that provided the CEO with $1.8 million in total compensation last year. That's more than CEOs earned at CoreStates Financial, First Fidelity Bancorporation, or PNC Bank—outfits said to be interested in Sovereign. Sidhu points out that his package includes $1.2 million in stock options that align his interests with those of stockholders. Sovereign's second-biggest stockholder, with a 2.9% stake, the CEO blames Jaindl's desire for a quick return for the turmoil. With 6.4% of Sovereign's shares, Jaindl's holdings are valued at $34 million. Sidhu insists he's not against a merger. He adds, however, that "as long as you can increase your earnings faster than those of a potential acquirer, then you can deliver a better value to shareholders."

HOT TICKET. Sovereign's fate may soon be decided. The cease-fire agreement, which also put off any sale discussion, expires on July 18. After peaking at over 11 a couple of years ago at the height of takeover speculation, Sovereign shares are down to about 9½. But many analysts believe the savings bank is high on the shopping list of potential suitors. Sovereign is the biggest thrift in Pennsylvania, with 120 offices in lucrative Pennsylvania, New Jersey, and Delaware markets. "The race isn't over," vows Jaindl.

By most accounts, Sovereign has thrived under Sidhu's leadership. Born in New Delhi, Sidhu attended Wilkes University in Wilkes-Barre, Pa., where he got an MBA. He later worked for a couple of small banks, including Horizon Bancorp, now part of Chemical Bank. When he took over at Sovereign in 1989, he built the business by acquiring small banks. Last year, the bank's earnings climbed 30%, to $46.4 million.

Sidhu often sought Jaindl's advice. A rough-hewn turkey grower who lost his right hand in a farming accident years ago, Jaindl raises 1 million birds a year. He's also known as a shrewd real estate speculator who sells or develops chunks of his 11,000 Pennsylvania acres. And his list of powerful friends is long, in-

A shrinking industry squeezes banks like Sovereign: Too small to survive and too big to be overlooked

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[illegible] from 1% at the end of 1990 to 6% at yearend 1992. That meant the value of Jaindl's investment [illegible]—not including the premium [illegible] fetch in a merger.

On June 1, 199[illegible] [illegible] sent a memo [illegible] Sidhu [illegible] ed, saying shareholders would get a bigger re[illegible] expand. With Sidhu and Jaindl at loggerheads, each began lobbying directors for support. But the board split 4-4, and [illegible] force a deal. Other big [illegible] avoided the battle.

NO QUITTER. As the debate dragged on, Sovereign received a number of feelers. In October 1993, First Fidelity sent a letter to Jaindl and the board, suggesting [illegible] And [illegible] that in [illegible] $[illegible] a share, $7 more than Sovereign's stock price. Neither CoreStates nor Fidelity—now being acquired by First Union Corp. in Charlotte, N.C.—will comment. Sidhu confirms there were inquiries but insists he never received a firm offer.

After the failure of Jaindl's late-November push to add a ninth board member, [illegible] Sovereign filed suit in federal court in Philadelphia on Dec. 20, 1993, against the chairman and two board allies. In early January, 1994, Jaindl counterattacked, suing Sidhu and his allies. On Jan. 18, the parties agreed to avoid a court fight and dropped their suits. Sovereign picked up all legal bills, which wound up at more than $1 million. The two sides also agreed to add an independent ninth director—who later supported Sidhu—and suspended sale talk for at least 18 months.

CEO SIDHU, 43: His total pay in 1993 was $1.[illegible] million

In the meantime, Sidhu has pursued his strategy of acquiring other banks, with the support of the entire board, including Jaindl. In 1994, Sovereign snapped up three thrifts. Sidhu added three more institutions in 1995. But the recent acquisitions doubled the amount of goodwill Sovereign is carrying on its books, to $12[illegible] million, by Mar. 31 of this year. That, in turn, lowered Sovereign's capital. The ratio of tangible equity to assets fell from 3.7[illegible]% at the end of 1994 to 2.74% by Mar. 31. Sovereign sold $10[illegible] million worth of convertible preferred stock in May to shore up its capital base. "There's never been a capital problem," says Sidhu, who plans more acquisitions.

By spring of this year, Jaindl had had enough. He resigned just four days after being reelected at the annual meeting. Jaindl says he was frustrated, claiming Sidhu wasn't disclosing proposals he may have been receiving from other banks. "Jay would keep all these things to himself," says Jaindl. Sidhu insists he never kept anything from the board.

Few directors expect Jaindl to stay up after the standstill agreement expires in July. He may not be able to get the kind of lucrative deal available in 1993. Savers are more frugal these days. But Jaindl isn't a quitter. Sidhu may have triumphed in the first battle. The war at Sovereign rages on.

By Joseph Weber in Wyomissing, Pa.

SOVEREIGN'S BOARDROOM SAGA

The sale issue lingers, but the bloom is off: Some say prices for savings banks peaked in '93

JUNE, 1993 In the midst of bank consolidation, Chairman Frederick Jaindl tells CEO Jay Sidhu he wants the company sold in six months. Sidhu argues for independence, and the eight-member board splits down the middle.

OCTOBER, 1993 First Fidelity sends a letter to Jaindl and board suggesting a friendly purchase. The inquiry is not pursued, Jaindl says. Sidhu says he never received a firm offer.

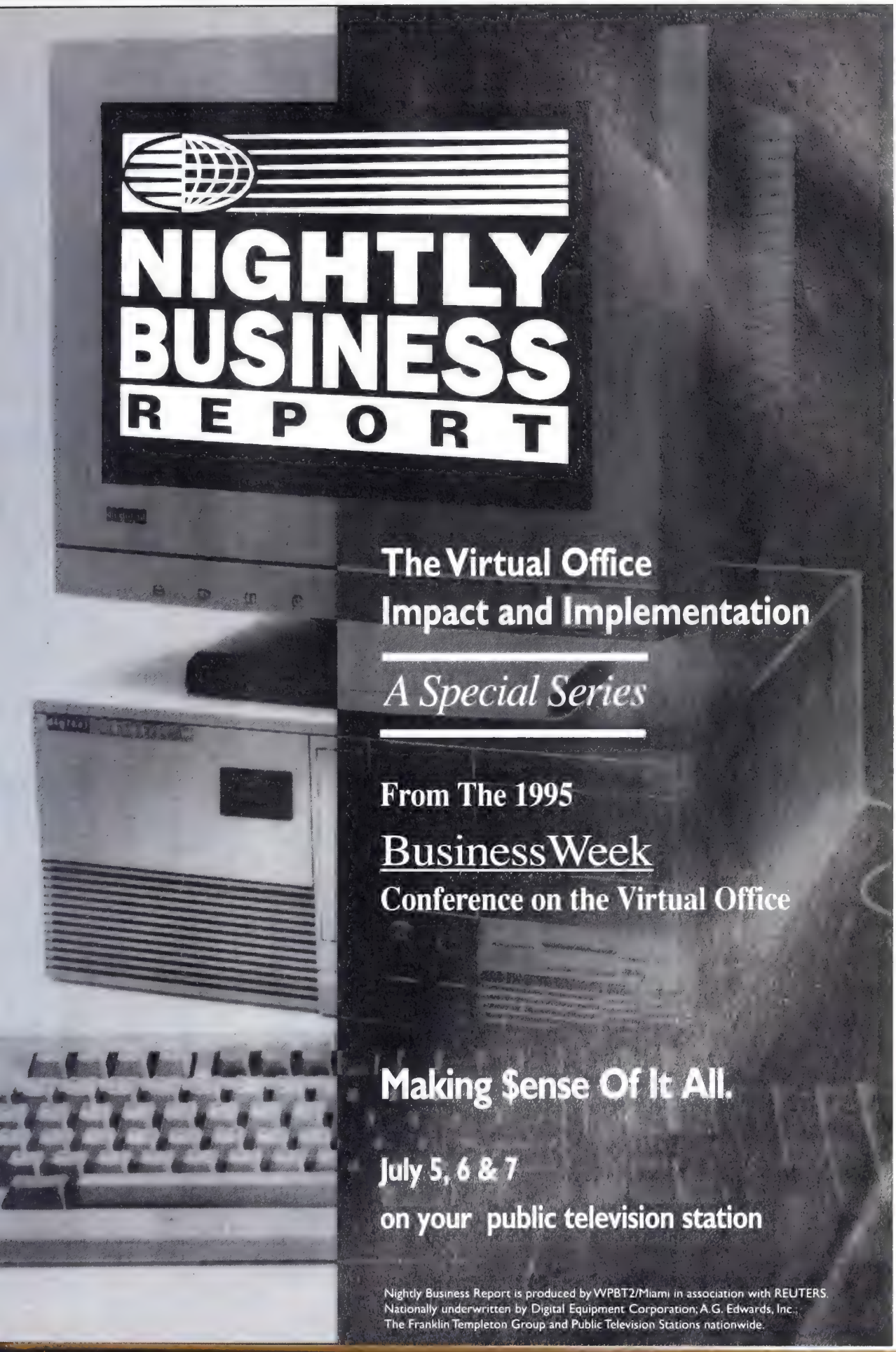
NOVEMBER, 1993 Jaindl calls a meeting to add a tie-breaking ninth director and to hire an investment banker. Board splits 4-4. Jaindl invalidates Sidhu's vote, a move later disallowed by company lawyers.

DEC. 20, 1993 Jaindl and others are sued by Sovereign, which accuses them of seeking to force a sale of the bank. Jaindl files a counterclaim, charging that Sidhu didn't consider all options available to Sovereign.

JAN. 18, 1994 The two sides settle suits, agreeing to stop hostilities and halt any talk of merger for 18 months. As part of the terms, a ninth director is added, and the bank pays more than $1 million in legal costs for both parties.

APR. 24, 1995 Jaindl quits, citing an "irreparable sense of mistrust and hostility" in his letter to board. He also expresses concern about Sovereign's weaker capital base after recent acquisitions.

JULY 18, 1995 Memo of understanding freezing hostilities is due to expire, freeing Jaindl to press for a sale or other changes at the bank.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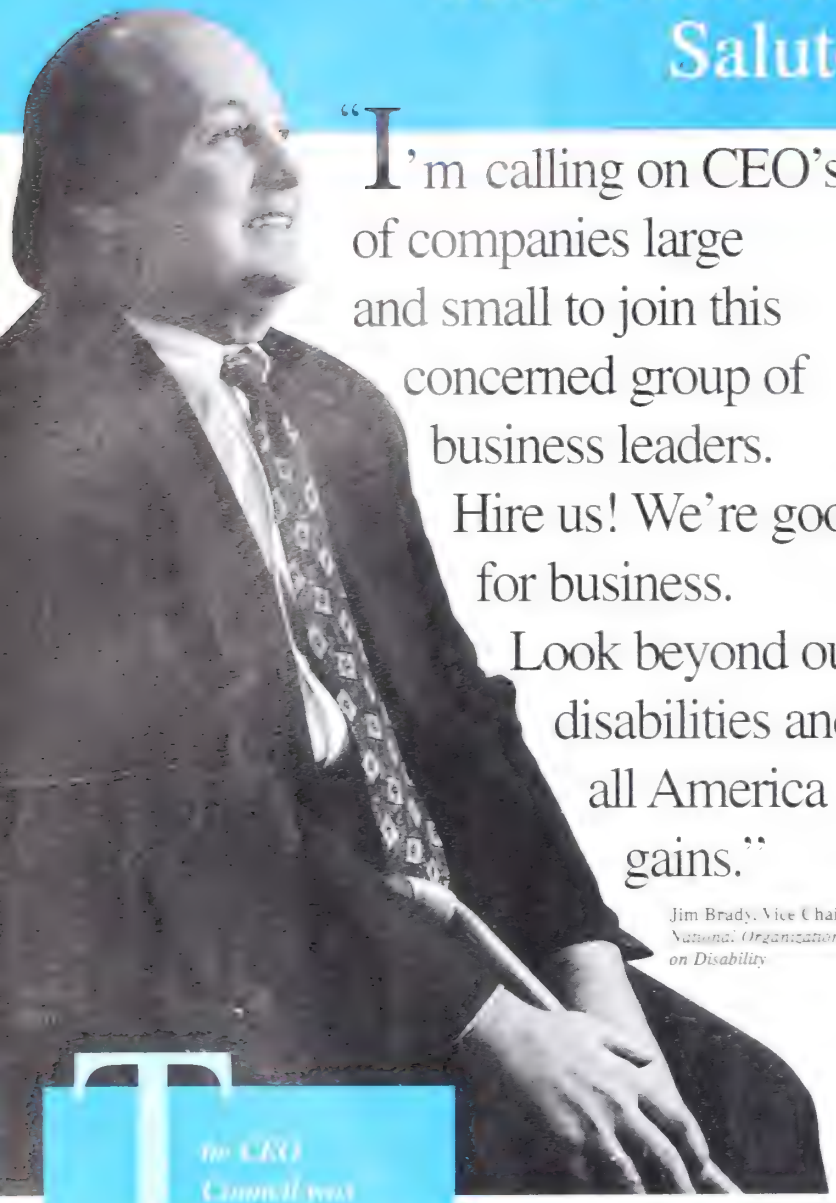

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IT'S GETTING EASIER TO BUILD YOUR DREAM HOME PAGE

I know a lot about Eve Andersson. The attractive (from the looks of her photo, anyway), 20-year-old mechanical engineering major at Caltech is obsessed with the number pi (π). She has even written a poem about it. Her favorite composer is Rachmaninoff, her favorite word is "asymptotic." She likes amaretto-flavored coffee, weight-lifting, playing the piano, and someday she plans to "have a bathroom tiled in a fractal pattern."

I did not learn all about Eve by talking to her. (After finding out all this, I wasn't exactly sure I wanted to.) I browsed her personal home page (http://www.ugcs.caltech.edu/~eveander/) on that ever-expanding region of the Internet, the World Wide Web.

TURKISH BAZAAR. Corporations large and small may be rushing the Net to establish their own billboards in cyberspace, but the Web is more than ever a vibrant Turkish bazaar of thousands of personal home pages. A home page is the introductory page to a Web site, the book cover, in a sense, to a digital collection of words, images, even sound and video clips, and links to other Web sites that anyone with a computer, a modem, Web browser software, and an Internet connection can access with the click of a mouse.

Some home pages are fascinating, funny, and oddly moving explorations of their authors' lives. Philip Greenspun, a graduate student at MIT, uses his home page to publish *Travels with Samantha*, his book-length manuscript about his wanderings around North America with his Apple Macintosh computer. (Guess what its name is.) Others are little more than electronic résumés, places to post research papers, or are of interest mainly because of their links to other sites. Some stretch the limits of what you would want to know about anybody: One man has posted medical photos of his internal anatomy that make you long for the days when there was no World Wide Web.

COMPUTERS

If you yearn for a page you can call your own, joining the ranks of "content providers" is easier and cheaper than ever. You still need to learn Hyper Text Markup Language (HTML), the Web's lingua franca, but new software makes creating a home page a snap. And a growing list of companies will offer you space on their Web servers, computers with fulltime Internet connections, for peanuts—or for free (table). On June 28, Prodigy began posting text-only personal home pages of some of its 2 million subscribers, and promises full graphics later this summer. America Online will soon offer similar options.

If you want to combine your personal page with your business, or want a strictly commercial page, you won't get away so cheaply: Space for a full-featured home page with snazzy graphics, interactive features, and plenty of content should run about $1,000 a year, plus outsi design fees. For exam space for business home p es at Hurricane Elec (http://www.he.tdl.com/) st at $39 a month; for a pers al page, it's as low as $ month.

HALL OF SHAME. Before begin, take a look at wh out there. If you want to some of the more graphic interesting home pages, Netscape's Navigator, still browser of choice for m serious Web surfers. Th because Netscape suppo such advanced graphics text capabilities as ja backgrounds, centered te text wraparound, tables w multiple columns and ro and variable fonts. Ch out the Enhanced for N scape Hall of Shame http://www.Europa.com/~y netbin/hos_homepages.h for some strange and w derful examples.

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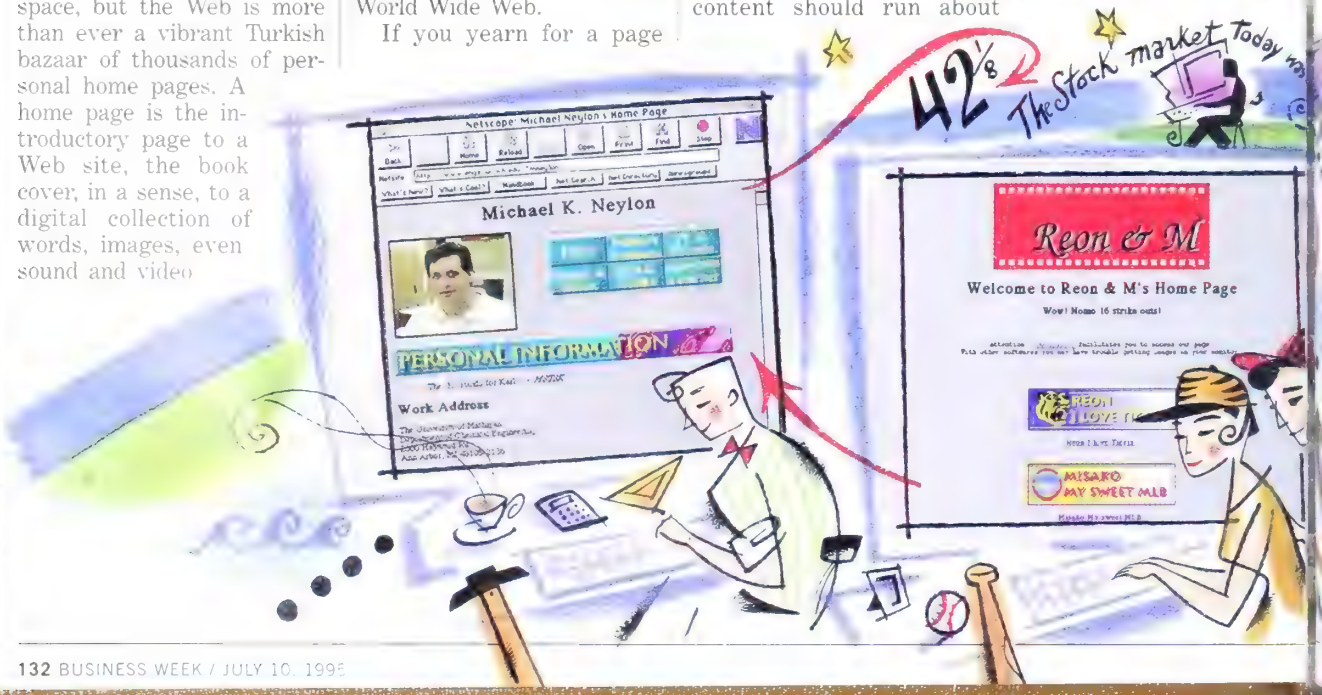


Network Navigator's Netizens. Within GNN lso find the Home Page uction Kit, containing a home page template ks to more resources.

INGO. But a template ly take you so far, es- once you realize that cret to a successful page is frequently up- ontent and graphic in- . If you really want to dvantage of the pow- raphics and text fea- hat have made home so popular in the first you'll have to learn first. Don't worry, it complex programming ge. "If you can learn a nongraphical word sor like XyWrite or erfect for DOS, you can TML," says Web devel- Robert Denny, whose re has helped launch ome pages. There are ood HTML primers on eb itself, but if you're , you'll find it easier to y cracking a book. The 've found is Laura 's *Teach Yourself Web hing with HTML in a* Sams Publishing, $25). can create HTML on ord processor, but it edious typing in all <body>, <P>, <A =, and other special It's much better to obtain software that will allow you to more easily create HTML documents or convert your existing documents to the format. I cut my teeth on Howard Harawitz's Windows-based freeware, HTML Assistant. It displays all the HTML codes but allows you to instantly test your page with almost any browser. Many people prefer WYSIWYG (what you see is what you get) authoring tools, such as Microsoft Corp.'s Word for Windows 6.0 free add-on, Internet Assistant. The problem with these programs is they don't incorporate the latest HTML features supported by Netscape. But a new stand-alone Windows-based editor I recently stumbled across called <Live Markup Pro> from MediaTech Inc. (http://www.mediatec.com/mediatech/) already supports some of them.

Once you've created your page, you have to decide whether to put it on somebody else's server or have your own. Many providers will help you publicize your page and even offer technical advice. But make sure the company has a reliable Internet connection—check by visiting other home pages on its server to see if they are easy to access. The major drawback to using offsite providers is the limitations they place on the size of files, features you can offer, and the difficulty of updating content.

There is another alternative: your own Web server. One of the most popular server programs is Robert Denny's Windows HTTPD 1.4. You can download it for free at http://www.city.net/win httpd/. Be warned, however, that this option is still more for the propeller-head set: You'll need a separate phone line so your page can be available at all times, and a fixed Internet address, not the kind that changes each time you log on. It's also a good idea to have a computer dedicated to the task—keeping your regular PC safe from the prying eyes of hackers. This can be quite an expensive hobby—more than $300 a month—if all you want to do is put up pictures of your dog and discuss your summer vacation. But it's certainly an option worth exploring as the price of Internet access declines and Web server software becomes more secure and easier to use.

Perhaps you're wondering about my own home page. Like so many pages on the Web, mine is a work in progress. You can view it at http://turnpike.net/~mfrons/index.html. Let me know what you think. But be gentle. Once you see my home page you'll know that I'm a very sensitive guy. *Marc Frons*

For an HTML version of this story, which you may load on your browser and use to link to the Web sites mentioned here, check out the download areas of Business Week Online on America Online. Or E-mail Marc Frons at mfrons@businessweek.com and he will E-mail you a copy.

A Personal Home Page Tool Kit

There's plenty of advice online to help you create a Web page. Here are some places to start:

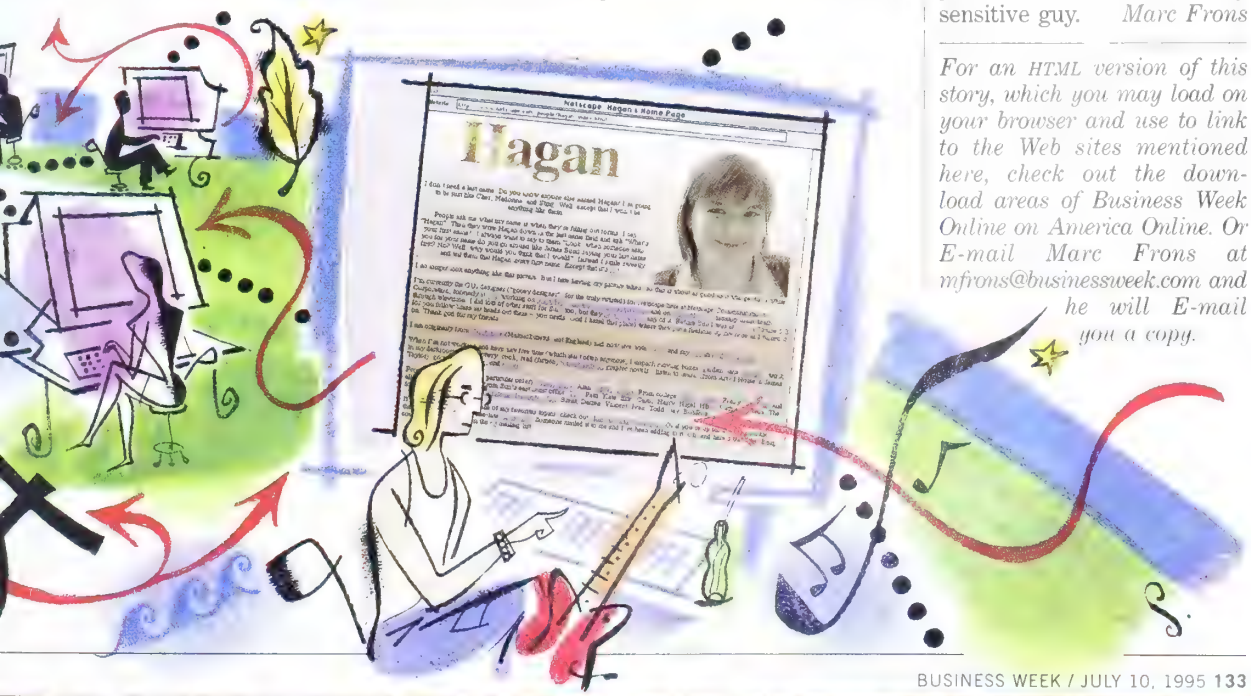
HTML AND WORLD WIDE WEB
Tutorials and links to other sites
http://www.csulb.edu/tutorials.html

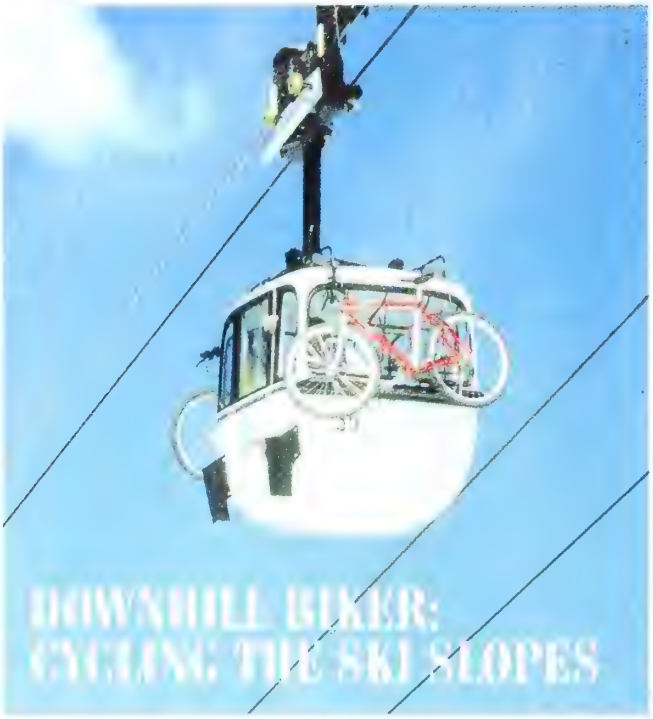
A HOME PAGE CONSTRUCTION KIT
A basic template and other tools
http://nearnet.gnn.com/gnn/netizens/construction.html

JOHN DECEMBER'S INTERNET TOOLS
A complete home-page directory
http://www.rpi.edu/Internet/Guides/decemj/itools/references.html

FREE WEB PAGES
A list of sites and other Web resources
http://metro.turnpike.net/J/JonsPage/freepages.html

DATA: BUSINESS WEEK





DOWNHILL BIKER: CYCLING THE SKI SLOPES

What mountain biker—inching up a steep traverse in lowest "granny gear"—hasn't thought a ride would be much more fun with a lot less uphill? Well, cyclists, your wish has been granted by the same people who added the word "downhill" to skiing.

Ski resorts, hungry for summer revenue, have discovered mountain bikers, and vice versa. In the past four years, the number of ski resorts open to bikes has grown from fewer than 20 to 200 this summer, estimates the International Mountain Bicycling Association. Hot spots like Vail in Colorado and Mammoth in California broke the 50,000-visitor barrier last summer, and many ski areas report strong gains this year in riders both on the trails and using the lifts.

Getting into mountain biking is simple. The first requirement is a bike. Originally, motorcycle and touring-bike parts were cobbled to Schwinn cruiser frames to create mountain bikes. Now they are distinguished from the once-ubiquitous 10-speeds by the number of gears (21 or 24), the fat frame tubes, balloon tires, straight handlebars, and an upright seating position. A decent basic steel-frame bike from makers such as Specialized or Trek starts at about $350, but $4,000 "trick" bikes of exotic materials like titanium (known to cost-conscious riders as "unobtainium") aren't uncommon from specialty builders like Merlin and Nuke Proof.

Sartorially speaking, new cyclists need only the essentials: padded bike shorts, padded gloves, eye protection, and most important, a helmet. Helmets, which cost $35 to $130, should be approved by standards-testers ANSI or Snell. It's also wise to carry a seat pack with tire patches, a spare tube, pump, and compact emergency tools, including hex wrenches, screwdrivers, a chain tool, and an adjustable wrench. And no kit is complete without an energy food bar to avoid the inevitable "bonk" when blood sugar runs low. These basics cost less than $150.

NO SWEAT: *Take the skilift, then hotdog it*

HAND-HOLDING. Ski resorts offer would-be gonzo downhillers an opportunity to ease into mountain biking. Many offer beginner, intermediate, and expert trails, as well as lessons, bike rentals and sales, repairs, and a first-aid center. And there are the lifts, specially equipped to haul bikes. Best of all, ski area summer prices are often half winter rates, and package deals are usually available. For example, Snowshoe Mountain Resort in Snowshoe, W. Va., charges $80 per person for a two-night package, which includes lodging, meals, passes for its 100 miles of trails, maps, and a souvenir water bottle.

OUTDOORS

Beginners appreciate all the hand-holding provided by resorts. "A lot of people ride on a gravel path and think they have been mountain biking," says Lisa Wolfe, co[illegible] munications manager [illegible] Whitetail Ski Resort a[illegible] Mountain Biking Center [illegible] Mercersburg, Pa. "Then t[illegible] find they are not comforta[illegible] jumping logs or riding o[illegible] rocks, and that's why [illegible] teach Mountain Biking 10[illegible]

Indeed, unprepared rid[illegible] strap on the toe clips at th[illegible] peril. Many newcomers d[illegible] realize the average inter[illegible] diate trail will be steep [illegible] dotted with logs and ro[illegible] like the pointy, tire-flatten[illegible] "chicken heads," the lo[illegible] round, hard-to-negotiate "b[illegible] heads," and the deadly "to[illegible] stones"—immobile, squa[illegible] rocks that abruptly halt [illegible] ward progress, inducting [illegible] ers into "Club OTB," so nam[illegible] for the "over the bars" tum[illegible] its members take. Most [illegible] clists take minor spills ev[illegible] ride, from a modest "da[illegible] meaning putting a foot d[illegible] for support, to the extre[illegible] "yard sale," which leave[illegible] rider's gear strewn across [illegible] trail.

Even experienced bik[illegible] will suffer ni[illegible] and scratches [illegible] the shins and arms durin[illegible] routine ride, a problem [illegible] the button-down crowd. A[illegible] Jody Oaks, a public relati[illegible] associate at Trahan Bur[illegible] & Charles Inc. advertis[illegible] agency in Baltimore. T[illegible] physical mementos of an av[illegible] age weekend ride mar [illegible] corporate image she likes [illegible] portray. "If you wear [illegible] white hose, the bruise sho[illegible] right through," she sa[illegible] "They [clients] look at me l[illegible] a little kid who got her b[illegible] dress dirty in the sandbox[illegible]

Is it worth it? Devout r[illegible] ers say the combination [illegible] challenge, accomplishme[illegible] and thrill is unbeatab[illegible] "There is a self-satisfactio[illegible] says Ira Schneider, a 38-ye[illegible] old Santa Monica, Calif., chi[illegible] practor. "You have a ch[illegible] lenge—go to an area, clear [illegible] without dabbing—and it's [illegible] great feeling." Or as veter[illegible] downhillers put it, it's alwa[illegible] a great ride if you make it [illegible] the bottom with the rubb[illegible] side down. *Roy Furchg[illegible]*

Ride the Ranges

AREA	DESCRIPTION
LUTSEN MOUNTAINS BIKE PARK Lutsen, Minn. 218 663-7281	Offers 28 miles of trails; one-day pass is $16.50; $49-a-night package includes unlimited rides on the gondola and room with jacuzzi
MAMMOTH MOUNTAIN Mammoth Lakes, Calif. 619 934-2571	Home to the famous "Kamikaze," a 4-mile groomed downhill run; day tickets are $20 for 60 miles of trails
STOWE MOUNTAIN Stowe, Vt. 800 253-2754	Offers two lifts to cyclists and 20 miles of trails; basic lodging from $25 per person per night, plus $10 for lift ticket
WHITETAIL SKI RESORT Mercersberg, Pa. 717 328-9400	Day lift pass is $23 for 20 miles of trails; "terrain garden" lets riders practice log hopping and making switchback turns

DATA BUSINESS WEEK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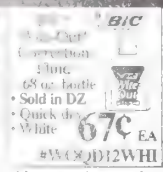

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[illegible]	[illegible]	June 29	Jersey City, NJ	[illegible]	New York City #5	September TBD	Mexico City
[illegible]	[illegible]	[illegible]	London, England	July 27	[illegible]	September 28	Atlanta, GA*
June [illegible]	[illegible]	[illegible]	Stamford, CT	[illegible]	Syracuse, NY	October [illegible]	Championship New York City
[illegible]	[illegible]	[illegible]	Boston, MA	[illegible]	Chicago, IL*		
[illegible]	[illegible]	[illegible]	Long Island, NY	[illegible]	San Francisco, CA*		
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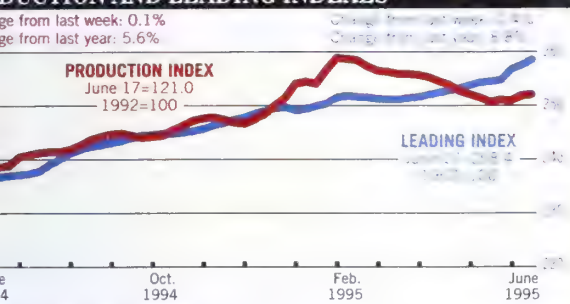

es are 4-week moving averages

oduction index edged up slightly in the week ended June 17, but the efore calculation of the four-week moving average fell to 120.8, from A drop in the seasonally adjusted output levels of autos and electric led the decline.

ading index rose for the latest week. The unaveraged index was down a pping to 258 from 258.4. Higher bond yields and rising business suggest slower economic growth ahead.

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PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (6/24) thous. of net tons	1,947	1,973#	2.0
AUTOS (6/24) units	134,968	131,485r#	–6.9
TRUCKS (6/24) units	117,585	117,385r#	–0.9
ELECTRIC POWER (6/24) millions of kilowatt-hrs	67,448	61,614#	–2.6
CRUDE-OIL REFINING (6/24) thous. of bbl./day	14,737	14,571#	2.7
COAL (6/17) thous. of net tons	18,661#	18,118	–2.9
PAPERBOARD (6/17) thous. of tons	938.3#	921.7r	6.8
PAPER (6/17) thous. of tons	813.0#	842.0	–2.4
LUMBER (6/17) millions of ft.	443.9#	441.6	–10.8
RAIL FREIGHT (6/17) billions of ton-miles	23.4#	23.2	3.1

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Forest & Paper Association, WWPA[1], SFPA[2], Association of American Railroads

DING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
K PRICES (6/23) S&P 500	546.99	536.07	21.4
DRATE BOND YIELD, Aaa (6/23)	7.27%	7.37%	–9.4
TRIAL MATERIALS PRICES (6/23)	114.5	113.8	NA*
ESS FAILURES (6/16)	322	305	3.5
ESTATE LOANS (6/14) billions	$483.8	$483.9r	12.2
Y SUPPLY, M2 (6/12) billions	$3,651.5	$3,642.4r	2.3
L CLAIMS, UNEMPLOYMENT (6/10) thous.	375	375r	7.4

s: Center for International Business Cycle Research (CIBCR), Standard & Moody's, *Journal of Commerce* (index: 1990=100), Dun & Bradstreet (failures companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on s failures and real estate loans. *Historical data available from CIBCR.

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (6/28) $/troy oz.	388.250	390.700	0.1
STEEL SCRAP (6/27) #1 heavy, $/ton	140.50	140.50	26.0
COPPER (6/24) ¢/lb.	145.7	140.2	25.1
ALUMINUM (6/24) ¢/lb.	85.3	84.3	21.8
COTTON (6/24) strict low middling 1-1/16 in., ¢/lb.	106.66	107.31	39.5
OIL (6/27) $/bbl.	17.90	18.01	–5.0

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX

REST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
AL FUNDS (6/27)	5.94%	6.01%	4.19%
ERCIAL PAPER (6/28) 3-month	5.93	5.96	4.70
FICATES OF DEPOSIT (6/28) 3-month	5.90	5.92	4.71
MORTGAGE (6/23) 30-year	7.74	7.82	8.65
TABLE MORTGAGE (6/23) one-year	5.84	5.98	5.45
(6/28)	9.00	9.00	7.25

s: Federal Reserve, HSH Associates, Reuters Holdings PLC

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (6/28)	85.12	84.29	99.35
GERMAN MARK (6/28)	1.40	1.39	1.60
BRITISH POUND (6/28)	1.57	1.61	1.53
FRENCH FRANC (6/28)	4.91	4.89	5.50
ITALIAN LIRA (6/28)	1638.0	1636.0	1601.5
CANADIAN DOLLAR (6/28)	1.38	1.38	1.38
MEXICAN PESO (6/28)[3]	6.290	6.250	3.387

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars

ata in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense nt. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

NAL INCOME

y, July 3, 8:30 a.m. ▶ Personal likely fell by 0.1% in May, says the forecast of economists surveyed by ernational, one of the McGraw-Hill so, that would be the first decline in in 1½ years. Income rose 0.3% in drop in payrolls suggests that wag- salaries were weak in May. Consu- ending likely rose 0.5% in May, after advance in April.

RUCTION SPENDING

y, July 3, 8:30 a.m. ▶ Outlays for g projects were probably unchanged That's suggested by the drops in g starts and construction jobs for the month. Spending rose by 0.4% in April, but had declined in each of the previous three months.

NAPM SURVEY

Monday, July 3, 10 a.m. ▶ The National Association of Purchasing Management's business index likely stood at 47% in June, following a 46.1% reading in May, according to the MMS survey. Both levels would be below the 50% mark, suggesting that industry is contracting.

LEADING INDICATORS

Thursday, July 6, 8:30 a.m. ▶ The government's composite index of leading indicators probably fell by 0.2% in May. Rising unemployment claims and no change in the factory workweek contributed to the weakness. The index has not risen since December, 1994. In April, it fell a steep 0.6%, raising talk of a coming recession.

EMPLOYMENT

Friday, July 7, 8:30 a.m. ▶ The MMS survey calls for a 125,000 gain in nonfarm payrolls in June. That would more than recoup the surprising 101,000 decline in jobs in May. Manufacturing, however, is expected to continue paring payrolls. The MMS economists expect factory job losses to total 10,000, on top of 56,000 layoffs in May. The June unemployment rate probably rose to 5.8%, from 5.7% in May.

Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A

Adobe Systems 94
Agfa 34
Alcan Aluminum 62
Alcatel Alsthom 55
America Online 101, 132
Anglo American Industrial 92
Apple Computer 28, 94, 104, 132
Archer Daniels Midland 44
Asian Business Connection 108
Assicurazioni Generali 55
Astra 62
AST Research 52, 100
Astrum International 117
AT&T 22, 108
Austin Bernet 40

B

Banco do Brasil 58
Banco Santander 120
Bankers Trust 36
Bank of America 38, 108
Bank of Boston 117
Bank of Canada 30
Barclays de Zoete Wedd 50
Baring Securities 92
Barrick Gold 62
Borland International 101
Bramalea 117

C

Canary Wharf 44
Carson Pirie Scott 12
CBS 44
Chef's International 40
Chemical Bank 122, 125
Chrysler 32, 38
Cifra 92
Cincinnati Bell 108
Coca-Cola 37, 62
Compaq 42, 94
Compass Bancshares 125
CompuServe 94, 101
Conference Board 29
Coopers & Lybrand 58
CoreStates Financial 125
Cowen 116

D

Daimler Benz 62
Dart Container 58
Dean Witter Reynolds 28
Dell Computer 42, 94
Delrina 94
Deutsche Bank 55
D.F. King 108
Diamond Multimedia Systems 115
Dickinson 40
Dow Chemical 22
Dresden Papier 124

E

E&Y Kenneth Leventhal Real Estate 50
Eastman Kodak 32, 34
Egghead 94
Eletrobrás 92
Enron 57
epic/mra 48
Ericsson (L.M.) 62
Ernst & Young 52
ESPN 101
Essex 110

F

Federal Way 122
Fiat 55, 62
First Fidelity 120, 125
First Jersey Securities 40
First Union 120, 125
F.N. Wolf 40
Ford 32, 38
Forrester Research 101
Fried Frank Harris Shriver & Jacobson 38
Friendly's 8
Fuji Photo 32, 34
Fujitsu 52

G

Gateway 2000 28, 100
GE Aircraft Engines 44
General Electric 22
General Instrument 52
General Motors 22, 38
Gibson Dunn & Crutcher 120
Gibson Greetings 36
Glaxo 62
Global Network Navigator 132
Goldman Sachs 32, 44
Grupo México 92
Guria 122

H

HarperBusiness 12
Hawaiian Airlines 44
Heron International 117
Hewlett-Packard 12, 94
Hibbard Brown 40
Hideki Kojima 50
Hills Stores 6
Hitachi 52
Home Shopping Network 101
Humongous Entertainment 94

I

IBM 28, 38, 42, 94, 104
ICI 62
IFI 55
Industrial Bank of Japan 44
Intel 62, 94, 104
Interlingua 52
International Data 42
International Finance 92

J

James River 58
Jones Day Reavis & Pogue 120
Josephthal Lyon & Ross 124

K

Keefe Bruyette & Woods 36
Kennedy Wilson 50
Kmart 34
Konica 34
Korea Electric 92
Korea Telecom 52
Krung Thai Bank 92

L

L.C. Wegard 40
Lehman Brothers 50, 62
Lockheed Martin 44
Loews 44
Lotus 38, 94, 104
LUX 52
LVMH 62

M

Major League Baseball 8
Matrixx Marketing 108
McGraw-Hill 139
MCI 108
MediaTech 132
Mediobanca 55
Mercedes-Benz 34
Mercer Bokert Buckman & Reid 124
Mercer International 124
Merlin 134
Merrill Lynch 6, 36
MetraHealth 44
Metropolitan Life 44
Michigan National 125
Microsoft 62, 94, 100, 101, 104, 132
Mirage Resorts 117
MMS International 139
Moody's Japan 50
Morgan Stanley 62, 92
Motorola 52

N

National Westminster Bank 122
NationsBank 36
NBC 101
NEC 52
Nestlé 94
Nintendo 94
Nokia 62
Noranda 62
Novell 28, 94
Nuke Proof 134
nVidia 115

O

Ocean Spray 8
Olympia & York 44
Oracle 117
OshKosh B'Gosh 12

P

Packard Bell 42, 94
PaineWebber 94
Parsons-Dillingham 39
Petroleum Finance 57
PNC Bank 125
Prodigy 101, 132
Prudential Securities 32

Q

Qualex 34

R

Ragen MacKenzie 58
Rail Construction 39
Reno Air 101
Ritz Camera 34
Robertson Stephens 94

S

Salomon 58
Salomon Brothers 1
Sams Publishing 13
Samsung Electronics 2, 92
SAP 62
Saturn 22
Schwinn 134
Sea Containers 8
Sega 94, 110
S.G. Warburg 42
Shelby Williams Industries 124
Shin Ho Group 124
Siemens 62
Silicon Graphics 110
Site-Based Media 40
Snowshoe Mountain Resort 134
Sony 52
Sovereign Bancorp 1
Specialized 134
Sprint 108
SRI International 110
Ssangyong Investment & Securities 52
Stena Finans 8
Sullivan & Cromwell
Symantec 94
SynergyLabs 101

T

Tanaka Capital Management 124
Tata Engineering 92
Telekom Malaysia 92
Telmex 92
Toshiba 52
Total Research 34
Tracinda 38
Trahan Burden & Charles 134
Travelers 44
Traveling Software 94
Trek 134

U

UBS Securities 50
Unilever 62
United HealthCare 44
United Micro Electronics 92

V

Vale do Rio Doce 92
Virtual Image Displays
Virtual i-O 110
Volkswagen 62

W

Walgreen 34
Wal-Mart 34
Walt Disney 34, 44, 1
Warner Bros. 44
Warnock Lexus 32
Wasserstein Perella 38
Wellcome 62
Wellington Management 38
Wertheim Schroder 38
Whitetail Ski Resort 1
William M. Mercer 28
WordPerfect 94
Work Recovery 124

Y

Yankelovich Partners 2
Younkers 12

Z

Zellstoff-und-Papierfab Rosenthal 124

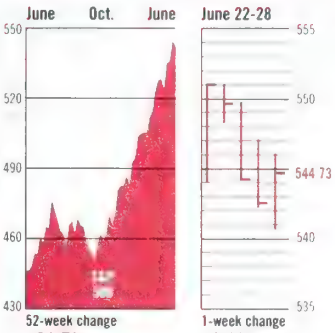
Business Week (ISSN 0007-7135) published weekly, except fo issue in January, by The McGraw-Hill Companies, Inc. Execu Editorial, Circulation, and Advertising Offices: 1221 Aven the Americas, New York, N.Y. 10020. U.S. subscriber $46.95/year; Canada: CDN $69/year. Second-class postage pa New York, N.Y., and at additional mailing offices. Postage pa Montreal, P.Q. Canada Post International Publications Mail Pro Sales Agreement No. 246484. **Postmaster:** Send address cha to BUSINESS WEEK, P.O. Box 430, Hightstown, N.J. 08

vestment Figures of the Week

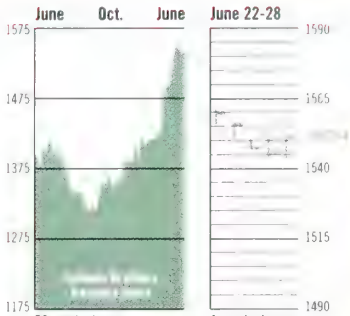
NTARY

inute agreement between Japanese trade negotia- bond prices and the dol- ping on June 28. Yields of ark 30-year Treasuries fell is points to 6.51% after rd was announced, and the imbed to a one-month high the yen. U.S. stock prices siderably more somber: Af- ping to an all-time high of June 22, the Dow Jones in- average dropped to 4543 27, rebounding to 4557 the

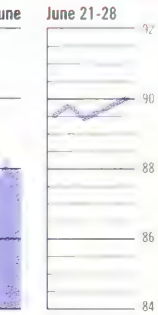
STOCKS



BONDS



THE DOLLAR



KET ANALYSIS

OCKS	Latest	% change Week	% change 52-week
ES INDUSTRIALS	4556.8	0.2	24.3
COMPANIES (S&P MidCap Index)	196.1	–1.0	18.9
OMPANIES (Russell 2000)	279.9	–1.0	16.6
PANIES (Russell 3000)	309.6	–0.1	20.6

N STOCKS	Latest	% change (local currency) Week	% change (local currency) 52-week
(FINANCIAL TIMES 100)	3282.7	–2.8	11.4
IIKKEI INDEX)	14,618.1	–2.2	–28.6
(TSE COMPOSITE)	4528.9	0.0	12.4

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	5.55%	5.56%	4.23%
30-YEAR TREASURY BOND YIELD	6.51%	6.54%	7.51%
S&P 500 DIVIDEND YIELD	2.45%	2.45%	2.82%
S&P 500 PRICE/EARNINGS RATIO	16.8	16.7	19.9

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day moving average	486.2	484.3	Positive
Stocks above 200-day moving average	71.0%	73.0%	Negative
Speculative sentiment: Put/call ratio	0.72	0.56 r	Positive
Insider sentiment: Vickers sell/buy ratio	1.30	1.29	Positive

BLOOMBERG FINANCIAL MARKETS

ISTRY GROUPS

NTH LEADERS	% change 1-month	% change 12-month	Strongest stock in group	% change 1-month	% change 12-month	Price
NES	12.6	20.8	USAIR GROUP	36.2	77.4	11¾
CONDUCTORS	9.0	80.3	MICRON TECHNOLOGY	19.0	236.4	54⅞
	8.8	–15.8	UNITED HEALTHCARE	13.5	–11.6	41
RAL MERCHANDISE CHAINS	8.5	8.8	KMART	16.8	–7.1	14¾
CHAINS	8.4	26.9	WALGREEN	9.9	28.1	50⅛

NTH LAGGARDS	% change 1-month	% change 12-month	Weakest stock in group	% change 1-month	% change 12-month	Price
RE TIME	–4.9	–11.3	HANDLEMAN	–12.1	–2.4	10
WARE AND TOOLS	–4.8	15.1	BLACK & DECKER	–9.9	62.1	28⅜
REL MANUFACTURING	–4.2	0.3	FRUIT OF THE LOOM	–25.0	–21.7	20¼
DING MATERIALS	–3.8	4.7	MASCO	–6.3	–5.9	26⅛
XPLORATION AND PRODUCTION	–3.7	–7.2	BURLINGTON RESOURCES	–6.3	–11.0	37½

UAL FUNDS

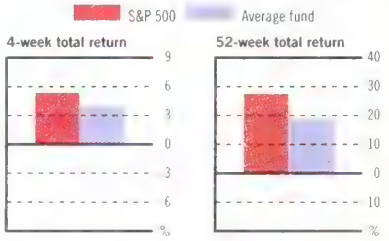
MORNINGSTAR INC

RS

ek total return	%
R CAPITAL APPRECIATION	16.5
RVE INFORMED INVESTORS GROWTH	16.0
WE PRICE SCIENCE & TECHNOLOGY	14.3
total return	**%**
MAN COMMUNICATIONS & INFORM. A	121.3
AMERICAN TECHNOLOGY A	95.7
NCE TECHNOLOGY A	92.0

LAGGARDS

Four-week total return	%
AMERICAN HERITAGE	–10.0
DFA JAPANESE SMALL COMPANY	–6.4
INVESCO LATIN AMERICAN GROWTH	–5.6
52-week total return	**%**
AMERICAN HERITAGE	–33.3
MONITREND GOLD	–27.1
TCW/DW LATIN AMERICAN GROWTH	–26.4



ATIVE PORTFOLIOS

DRI/McGRAW-HILL

mounts represent the value of $10,000 one year ago portfolio

ages indicate total returns

U.S. stocks	Treasury bonds	Foreign stocks	Money market fund	Gold
$12,461	$11,953	$11,066	$10,528	$10,074
–0.47%	+0.26%	+0.50%	+0.15%	–0.35%

n this page are as of market close Wednesday, June 28, 1995, unless otherwise indicat- ry groups include S&P 500 companies only; performance and share prices are as of market close June 27. Mutual fund returns are as of June 23. Relative portfolios are valued as of June 27. A more detailed explanation of this page is available on request. r=revised NA=Not available

VICTORY FOR FREE MARKETS EVERYWHERE

The auto agreement signed between the U. S. and Japan is a clear victory for those who argue that, from now on, access to open American markets must carry a price: reciprocity. It sends a strong signal to the entire international trading community that mercantilism—protecting domestic markets and industries while exporting aggressively into other nations' markets—is no longer acceptable. It proclaims an end to America's cold war global economic strategy of bolstering Japan, South Korea, and Europe against communism by allowing them to protect their industries. This should have happened years ago.

President Clinton deserves full credit for taking the risks in going to the brink in order to save free trade. There was no waffling this time. Firm leadership helped generate the broadest domestic support ever for a tough U. S. stand to pry open Japanese markets. The Republican leadership, industrial leaders, labor, most of Congress, and nearly all of the nation's governors backed the President. Never before has this kind of equanimity confronted Japanese negotiators. Before, Japan had been able to fragment U. S. policy by appealing to legislators and governors whose districts had Japanese factories. This time, except for the Europeans who confused tactics with strategy, it didn't work.

A polite fiction broke the impasse in negotiations. Japan agreed to measurable targets for increasing sales of U. S. autos and auto parts, but they are strictly voluntary and will come from side agreements in the private sector. Th model has already proved successful in opening up Ja semiconductor market and with proper vigilance could wo the auto industry, as well. The fact is that, with the ye strong, it is in the economic interest of Japanese car co nies to buy cheaper U. S. parts.

The deal calls for Japan to open 1,000 more of its dealerships to American and other foreign auto sales in years and to begin to deregulate the safety-inspection sys which would open the auto parts aftermarket to U. S. p ucts. At the same time, the top five Japanese auto ma agree voluntarily to boost their purchases of U. S. parts b billion, a 50% increase. This is significant. Some 58% o U. S. trade deficit with Japan (26% of the entire U. S. t deficit) is in autos and auto parts.

Bureaucrats from Japan's trade and finance ministries currently fanning out throughout China and Southeast spreading the gospel of the "Japanese Way" of economic velopment. This amounts to a song of mercantilism by bur crats who live off it. What Asians are not being told is the closed Japanese model has always depended on expor to an open U. S. market. The Administration's successful e in opening up Japan's market will not only help American will inform Vietnamese, South Koreans, Chinese, and some Europeans that free trade with the U. S. is now a t way street.

MONEY TALKS, CAMPAIGN REFORM WALKS

The handshake deal between President Clinton and House Speaker Newt Gingrich in New Hampshire to appoint a bipartisan commission to come up with political reform proposals was good TV, nothing more. Both parties have been reluctant to push for serious lobbying reform and campaign finance legislation. It's one reason why so many voters are so fed up that they have backed third-party candidates such as Ross Perot.

The pity is that the Republicans, who stormed into Congress to change things, are simply copying the once entrenched Democrats in resisting electoral reform. And for the same reason: Those in power get more money from special interests, giving them a big edge in getting reelected. It's a big mistake. For all the GOP's attempts to reshape the federal bureaucracy and update arcane Capitol Hill rules, voters remain rightfully concerned about the influence of special-interest dollars. Recent reports that Republican lawmakers are relying on lobbyists to actually draft legislation on regulation and taxes—while the groups they represent line up to contribute to the GOP's 1996 coffers—only reinforce skepticism.

The truth is that Gingrich is not a big fan of lobbying reform. He even seems to be backpedaling on campaign reform. Two years ago, Newt pushed to eliminate political-action committees. But now that Republicans are winning the li share of PAC contributions for the first time in decades, h less enthusiastic. He told BUSINESS WEEK on May 26 t the House would turn to reform issues "eventually," but t other problems came first. In fact, rather than pursuing deal with the President, Gingrich is now accusing hi playing politics with the issue.

That's a cynical miscalculation. Republican dawdling the issue will only feed the grassroots movement launche 1992 by Perot. While his days as a Presidential candidate r be over, the movement he spawned played a crucial rol kicking out the Democrats as kings of the Hill. If Republic do not satisfy this fiercely independent voting bloc, th angry voters could well turn their backs on the GOP in 19

Many of the newer Republicans on the Hill understand grassroots demand for reform. Led by Representatives Cha T. Canady (R-Fla.) and Linda Smith (R-Wash.), they are urg their leaders to act sooner rather than later. Canady is seek bipartisan consensus for reform. Democrats such as Sena Carl Levin (Mich.), Representative John Bryant (Tex.), a Senator Paul D. Wellstone (Minn.) are ready to meet h halfway. Handshakes are nice. But it's time for action.

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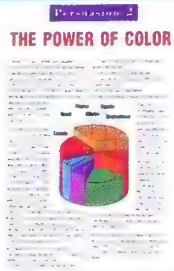

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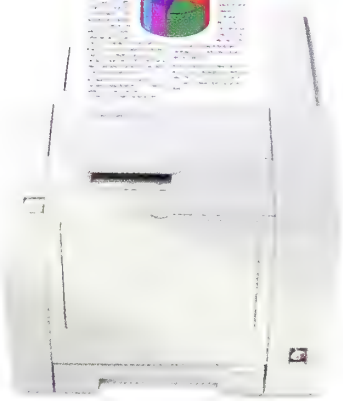

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BusinessWeek

17, 1995

A PUBLICATION OF THE McGRAW-HILL COMPANIES

WAGES

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Are we
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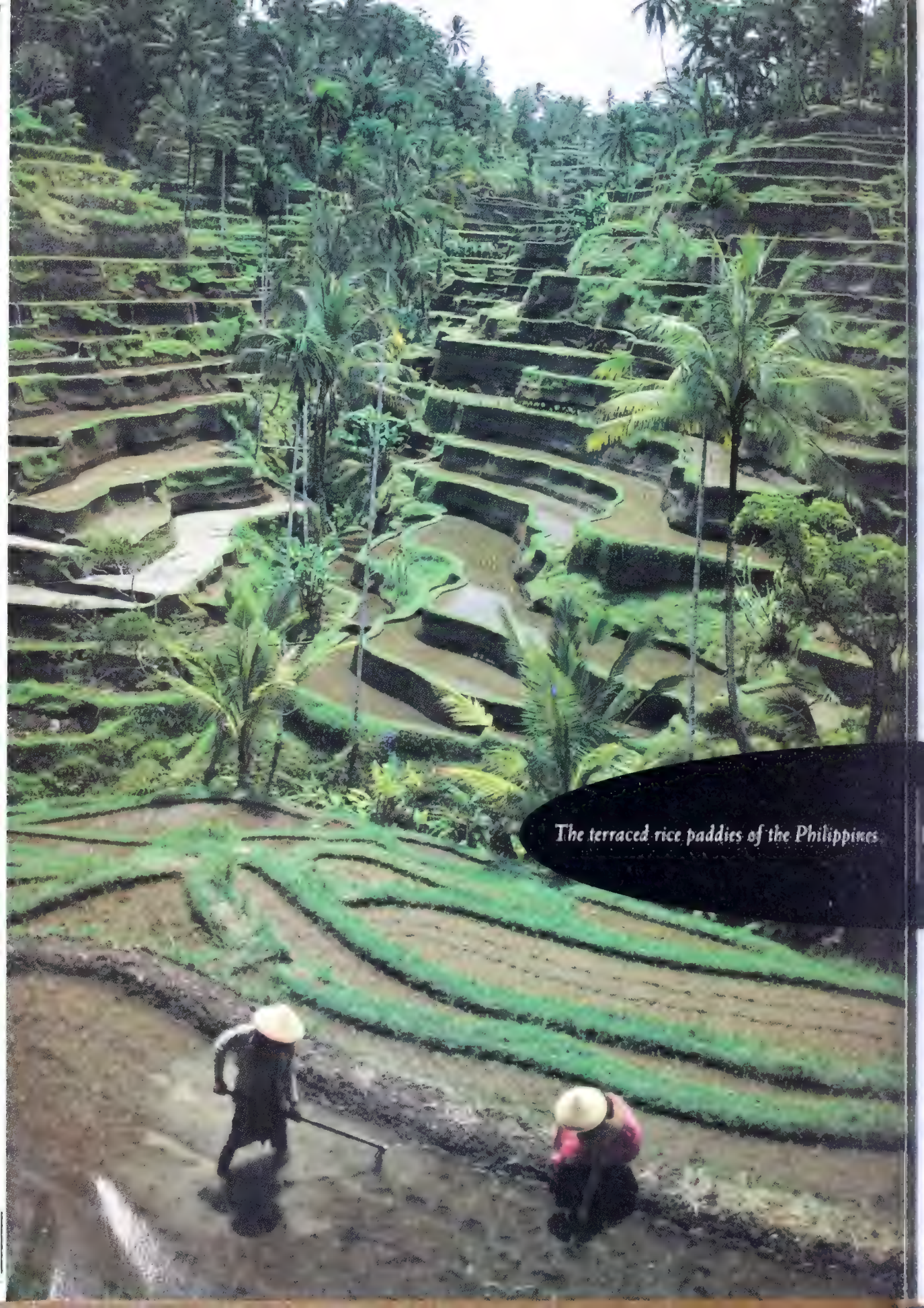
E 54

PERMIT US TO EXPAND UPON THE IDEA OF A LUXURY CAR.



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COVER STORY

WAGE SQUEEZE

With corporate profits soaring and unemployment low, wages ought to be ratcheting up. They're not. Has the structure of the economy changed?

BusinessWeek

JULY 17, 1995

Cover Story

54 THE WAGE SQUEEZE
Corporate profits are at a 45-year high, unemployment is low, and productivity continues to climb. Wages, however, are not keeping pace. Does this seeming defiance of the laws of supply and demand signal a structural change in the economy?

60 OUTSOURCED—AND OUT OF LUCK
Corporate America keeps shifting work to contractors that pay less

News: Analysis & Commentary

30 ROUGHER TRADE
With confrontations looming on several fronts, the rivalry between the U.S. and Japan is heating up

32 DETROIT: DON'T RACE YOUR ENGINE
The trade pact likely won't help U.S. carmakers sell much more in Japan or cut Japan's share in America

33 COMMENTARY
The best place right now for the U.S. to resolve its trade dispute with Japan is the World Trade Court

34 A LEGAL PLAN FOR EMPLOYEES
More companies are offering prepaid law services—modeled on HMOs—as a benefit option for workers

35 CHEAP STEEL DOESN'T COME CHEAP
An angry rival and the United Steelworkers are out to stop Trico's new mill

38 A WINDFALL LOST IN SPACE
The FCC's satellite-TV plan means more competition for investors and operators

38 NET FOR UNWARY INVESTORS?
Online ventures are drawing plenty of cash, but profits are slim to none

39 IBM, MEET JOHN Q PUBLIC
A new division will give consumers its undivided attention

42 IN BUSINESS THIS WEEK
Morrison-Knudsen, tobacco, Smith Corona, spotted owl power, flat tax, Packard Bell, the Common Fund

International Business

44 INDIA
Indians living abroad are investing technical skills, business acumen, and hard-earned cash in the motherland

48 AZERBAIJAN
The Great Game comes to Baku: W will tap—and transport—the Casp sea of oil?

53 INTERNATIONAL OUTLOOK
In China's shadow play, the figure watch may be economic strongma Zhu Rongji

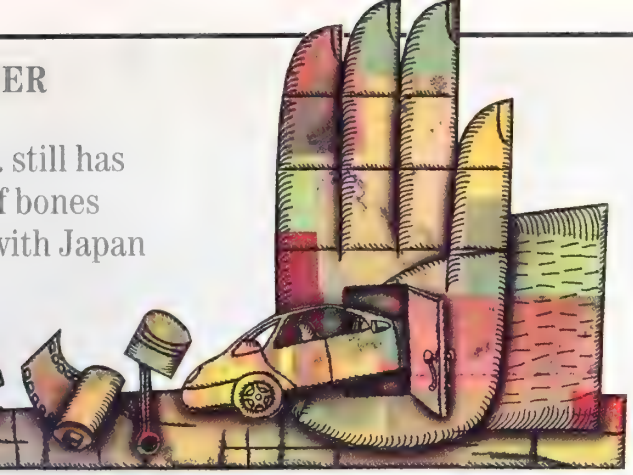
Economic Analysis

22 ECONOMIC VIEWPOINT
Roberts: In trying to cancel amne Chile's military, the left may wipe all the ground the country has gai

26 ECONOMIC TRENDS
New-home size has leveled out, pensions may not be puny, foreign owners and wages, some local civil service hiring rises

27 BUSINESS OUTLOOK
The battle of the inventory bulge be winding down—but a lot depen whether consumers keep spending

80 COMMENTARY
Is the nation-state obsolete? Autor isn't withering, even though global forces seem to usurp government



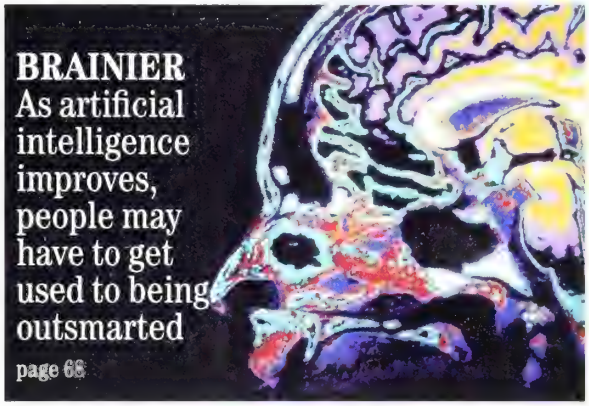
ER

still has
f bones
vith Japan

MARKETING MAVERICK
Dennis Rodman is a showman on court and off–as his marketing clout demonstrates page 74

G HOME
s Indians seek
rlode in
nerland page 44

DEAR ABBY
Abigail Johnson: Keeping Fidelity all in the family?
page 82



BRAINIER
As artificial intelligence improves, people may have to get used to being outsmarted
page 68

rnment

NGTON OUTLOOK
996 could be the year when
ublicans consolidate their
y in Congress

Corporation

OUT AT WESTINGHOUSE
rs are getting tired of waiting
turnaround promised by CEO
Jordan

mation Processing

OLOGY & YOU
evie can draw: Our intrepid
r samples the new drafting
e

G SOON: THINKING COMPUTERS
imate goal of researchers in
l intelligence—humanlike
ng and the ability to learn—is
reach

AIN BEHIND THE BRAIN
le Garis, an AI visionary, plans
designing circuits, creating a
er of almost infinite complexity

Marketing

74 **REBEL WITH A CACHET**
NBA star Dennis Rodman is outspoken, flamboyant, unruly—all that marketers crave in a Generation X pitchman

Science & Technology

75 **ARE REGS BLEEDING THE ECONOMY?**
Maybe not. The real cost of regulations is extremely hard to measure, and they may even help boost competitiveness

77 **DEVELOPMENTS TO WATCH**
Video-game displays, green lawns, a Down's defense, freezing the vortex

Finance

82 **THE DAUGHTER ALSO RISES**
Abigail Johnson's family controls Fidelity. How far and how fast will she travel at the mutual-fund giant?

83 **DEUTSCHE BANK IS ON THE ATTACK**
The German giant is grabbing U.S. investment-banking talent

89 **MUNIS ARE ALIVE AND WELL**
Despite the Orange County fiasco, municipal bonds are selling briskly

90 **INSIDE WALL STREET**
Is this printer just the ticket?
Where high rollers plunk their chips
No film—but a big photo negative

103 **INVESTMENT FIGURES OF THE WEEK**

Social Issues

91 **JUST WHAT DR. GINGRICH ORDERED**
International Paper's health plan puts a premium on comparison shopping

Personal Business

94 **INVESTING:** How should you diversify?
SMART MONEY: The metals muddle
HEALTH: Cryotherapy for cancer

Features

8 **UP FRONT**
12 **READERS REPORT**
12 **CORRECTIONS & CLARIFICATIONS**
16 **BOOKS**
Goldberg and Goldberg: *Citizen Turner*
101 **BUSINESS WEEK INDEX**
102 **INDEX TO COMPANIES**
104 **EDITORIALS**
Faster U.S. growth will raise wages
Give the WTO more muscle—and glasses

Up Front

EDITED BY LARRY LIGHT, WITH OLUWABUNMI SHABI

LITIGATION NATION

CORPORATIONS 1, ATTORNEYS 0

IT WAS OPERATION FIZZLE. A coalition of attorneys spent an estimated $1.5 million on an 11th hour advertising blitz to stop Senate passage of a bill aimed at curbing frivolous shareholder lawsuits. The lawyers targeted 20 states with wavering senators who had received ample attorney campaign manna in the past. In the 10 days before the June 28 vote, TV ads warned that scammed investors would be stripped of redress, even picturing savings and loan scandal figure Charles Keating.

NO HELP: *Harkin, Mikulski*

The lawyers couldn't even hold on to such longtime liberal Democratic allies as Ted Kennedy and John Kerry of Massachusetts, Tom Harkin of Iowa, or Barbara Mikulski of Maryland. The Senate voted by a veto-proof 70-29 in favor of the reforms. Mikulski says that concerns over shareholder lawsuits against high-technology companies were a compelling factor in her vote for the measure.

Corporate America spent freely, too. The business coalition supporting the bill says it spent $1.7 million on print and broadcast ads in the final week before the vote.

The worst ignominy for the plaintiff lawyers: Some television stations were still airing their prescheduled commercials after the Senate vote. *Owen Ullmann*

BREW HAHA

ZECOND THOUGHTS AT COORS?

IS ZIMA THE EDSEL OF brews? When Adolph Coors said on June 29 that its second-quarter profits had skidded 37%, it fingered declining sales of the quirky new "clear malt" drink as a culprit, along with rising can costs for all products.

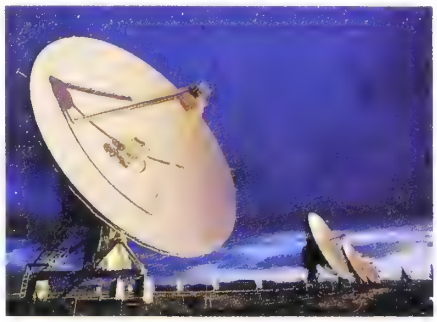
Though Coors won't break out details on Generation X-oriented Zima's performance, the rapid sales fall from its strong early-1994 debut increased the odds that it might be dropped. Tom Pirko, head of consultant Bevmark, says the initial sales surge was only due to a big kickoff ad campaign. Coors, he says, "won't be able to shove it down the throats of a facile generation."

CLEAR MALT: *Foggy future*

The evidence is that the embattled brand will survive, at least for now. Because the clear drink appeals to young women (taste: like a weak gin and tonic), Coors is aiming at young men by starting a Zima Gold line (taste: bourbon and soda). And it has new ads that are more traditional, with young people frolicking, such as at a coed football game. That replaces its old, off-beat "zomething different" ad tack. *Sandra Dallas*

TALK SHOW "The risk of financial collapse has diminish considerably."

—Mexican President Ernesto Zedillo, waxing optimistic as his country's stock market hits a seven-month high



GREEN BEAM: *Mother Nature's spies*

NEW WORLD ORDER

SATELLITE PHOTOS: IN FROM THE COLD

ONE MORE SIGN THE COLD war is really history: The U. S. and Russia are about to share spy-satellite data. Back in the bad old days, even meaningless photos were closely held, lest the other side get some idea of the level of detail contained in the pictures. Pentagon officials aren't worried that they'll be giving away too many state secrets now, though. The info to be swapped the U. S. dat from 1960 throu 1972.

President Clinton in Feb ary declassified roughly 800,000 ages, which are be used to moni changes in the vironment. T photographs fr both countries w provide a baseline for co paring current pictures tak from nonmilitary sourc such as Landsat. The res could be a greater und standing of the ecological i pact of fires, nuclear tes and the like. "It's an appre ation that we're all on o planet," says the Natio Reconnaissance Office's M jor Patricia Wilkerson.

More sharing of da gleaned from space could f low. Washington and Mosc have agreed to devel a joint space biomedic laboratory. *Stan Cro*

PRODUCT PEEK

CALL IT OLD INFLAMMABLE

BURNING OLD Glory may become harder to do—no thanks to the proposed constitutional amendment that would outlaw flag desecration. A new flag on the market doesn't catch fire. National Flag & Display of New York figures that widespread use of their product will make the contentious issue moot. Says company Vice-President William Ross Lindsay, who claims Betsy Ross as an ancestor: "Maybe this can take the heat out of the debate."

BEFORE: *Untreated flag*

The Untorchable, as it's called, melts in a puddle goop. And th takes hour That would d prive proteste of the dran they get fro quick ignition bright, devou ing flames.

The no-bur ing amendmen which passe the House Jun 28, now goes the Senate. Bill Teator, a aide to amendment spons Representative Gerald Sol mon (R-N.Y.), says the fla could still be desecrated other ways, so the ban still needed. Critics knock th amendment on free-spee grounds. *Cindy Wet*

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TEXAS INSTRUMENTS

Up Front

HORSE PLAY: *Click and wager*

PRODUCT PEEK

TURN YOUR TV INTO A TOTE BOARD

CALL IT THE INFORMATION Super Raceway. A Tulsa-based satellite broadcaster has a plan for people who want to bet on the ponies—and maybe on other sports—from the comfort of their own couches. ODS Technologies, in partnership with Mark Goodson Productions and Comcast Cable, wants to let rec-room railbirds wager using a special interactive hookup to their TVs. For an as-yet undetermined sum, viewers can choose from an onscreen menu that shows a racing form with background and handicappers' odds on a horse, plus up-to-the-minute tote board data, such as scratches. Viewers place bets with a handheld remote that links them to a track where they maintain an account. Then they watch the race on a cable channel. Gambling-wary Maryland turned down ODS's application to operate this spring, but in Kentucky the company just struck a deal with Churchill Downs to test-market the service.

The plan is to let viewers put money on any race that's available to simulcast bettors—those who wager at the track on televised races from around the country. Today, homebound racing aficionados can bet via phone in seven states, but they don't receive the instant tote-board info. *Roy Furchgott*

IPO TURKEY SHOOT

A CRIMSON TIDE OF INK

MOVIEFONE INVESTORS ARE not exactly dialing for dollars lately. Since the theater-and-showtimes phone service went public in May, 1994, its stock has lost more than half its value, recently trading at 4⅞.

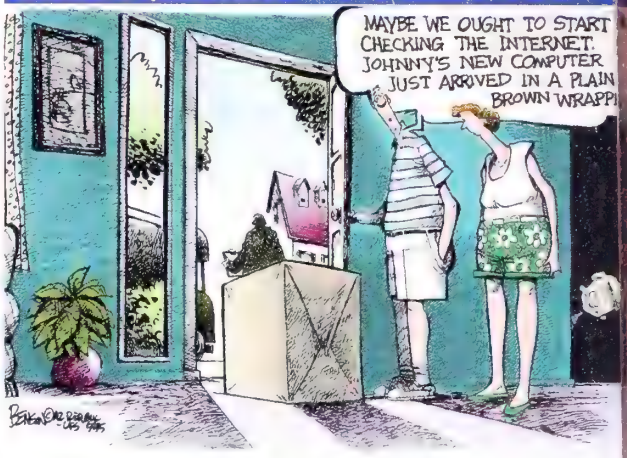
DATA: BLOOMBERG FINANCIAL MARKETS

One problem is that the New York-based company has continued to run red ink as it expands. MovieFone used the $28.5 million proceeds from the initial public offering to expand from 10 to 25 major markets, a costly endeavor.

Mostly, however, CEO Andrew Jarecki thinks Wall Street doesn't understand the way that the company makes money. When people dial MovieFone—777-FILM in many places—the call is free. The bulk of the revenue comes from a 30-second ad for flicks that people must listen to before they get what they called for.

Jarecki is sure a summer of hit films will make the quarter that ended on June 30 profitable, pleasing the stock market. If so, call it fade to black. □

DRAWN & QUARTERED



STEELYARD BLUES

A $12 MILLION TIN TRUMPET?

CAN DO: *Soon, a PR blitz*

AMERICANS ARE KICKING THE tin can around. They think canned food is soggy, salty, déclassé—and they prefer fresh or frozen food. So says a steel industry study that found the public doesn't even know that tin cans are made of steel, or that steel is recyclable.

Result: The steel industry, which had seen aluminum wrest away the beverage can market, has launched a $ million public-relations bl to rescue the $2.4 billion t can market. Big Steel is p moting canned food in *H Book* and *Ladies Home Jo nal*. And industry types a touring the malls, prepari such recipes as shrimp-sal tortellini for curious shoppe The pasta and shrimp a fresh, but the reps supp ment them with canned oliv and artichoke hearts.

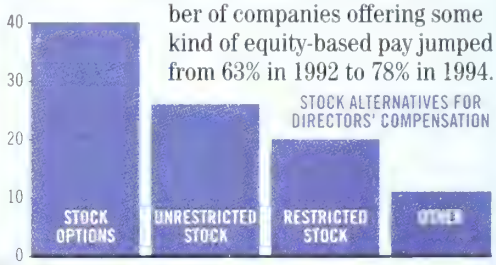
Steel hopes to avoid r peating one of its worst d asters. In the '70s and '80s, watched as aluminum horn into the can market with a gressive marketing.

Steel still holds 95% of t food-can market. But canne goods sales are flat and falli per capita among the affl ent—the ones the indust most wants. Its aim isn't much to lift sales as to stem decline. *Stephen Bak*

THE BIG PICTURE

DIRECTORS TAKE STOCK

Companies are trying to better align directors' pay with corporate performance, so the number of companies offering some kind of equity-based pay jumped from 63% in 1992 to 78% in 1994.



DATA: WILLIAM H. MERCER INC.

FOOTNOTES Executives who believe minorities are often overlooked for key promotions, 1992: 16%; 1995: 8%

Readers Report

THE LIMITATIONS OF HIGH TECH

As highlighted in "The networked corporation" (Information Technology Annual Report, June 26), the potential of the World Wide Web (WWW) seems to me to be greatly misunderstood. It is not a substitute for print: You can't read the Web easily over the morning cornflakes or on the bus. Nor is it a particularly good place for stand-alone corporate ads, because users can easily avoid these by not accessing them.

In my view, one of the greatest potentials of the WWW, with its low entry and distribution costs, is to allow niche players and specialists to gain a nationwide or global reach that would be prohibitive through other forms of marketing (direct mail, print advertising, etc.). The key, however, is that the WWW presence must provide useful information—not just an ad—to give targeted users an incentive to keep "tuning in."

The WWW has turned the cost calculations of publishing on their head. We just launched a Russian Business Information Service, including articles and other information provided by Russian companies. Printing and distributing this would not have been viable.

Of course, low costs also mean that much low-quality material is placed on the Web. The challenge, then, just as in print publishing, is to provide high-quality information in an easy-to-use format and to stand out from the clutter.

Peter Gordon
Image Alpha Ltd.
Hong Kong
pgordon@HK.Super.Net

Your headline "Groupware requires a group effort" (Editorials, June 26) is very telling. Technology usually does not meet its full potential.

Voice mail is a good reminder of what happens when we provide technology to people. While the technology is truly phenomenal, what happens more times than not is that people hide behind their voice mail. Ultimately, voice mail gets a black eye. However, once again, it is really a failure of the people that u[illegible] the technology. Don't expect nearly [illegible] of what is promised when reading abo[illegible] groupware.

Kenneth Leebo[illegible]
Marietta, C[illegible]
klvip@aol.co[illegible]

CORRECTIONS & CLARIFICATIONS

"Picking through web clutter" (Technology [illegible] You, June 19) transposed the address for th[illegible] Small Business Administration web site. Th[illegible] correct address is http://www.sbaonline.sba[illegible] gov/.

In "The balanced budget payoff" (Editori[illegible] als, July 3), the prime rate was misstated [illegible] It is 9%.

IS TICKETMASTER GUILTY OF SUCCESS?

"Will Ticketmaster get scalped?" (L[illegible] gal Affairs, June 26) missed several i[illegible] portant underlying points. CEO Fredi[illegible] C. Rosen single-handedly broug[illegible] Ticketmaster and ticketing-indust[illegible] technology into the 21st century. H[illegible] produced a marvelous machine for se[illegible] ers and consumers alike. Using t[illegible] Ticketmaster system, potential custo[illegible] ers in Butte, New York, or San Franc[illegible] co can visualize and select the seat [illegible] their choice for any event in the U. [illegible] Rosen's company strategically broug[illegible] ticketing to the customer in a way ne[illegible] er done before. He is the Bill Gates [illegible] the entertainment-service business a[illegible] has fueled successful concerts, theatri[illegible] events, and sporting contests becau[illegible] of his revolutionary approach.

Sadly, the U. S. has moved from b[illegible] ing a society that desired, rewarde[illegible] and promoted great feats of corpora[illegible] building, like IBM and Thomas Watso[illegible] to a country that now regularly attac[illegible] success. The Justice Dept. under [Atto[illegible] ney General] Janet Reno is taking [illegible] Ticketmaster because revolutionizing a[illegible] industry is no longer considered a pos[illegible] tive event. As I see it, Ticketmaste[illegible] only crime was to shake up a sleepi[illegible]

Business Week

A Division of The McGraw-Hill Companies

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ry and give the consumer exactly he wants and where he wants it. some crime in a free enterprise n.

Bruce G. Siminoff
Califon, N.J.

OD MANZI AVE AROUND

n't underestimate Jim Manzi's ess sense and abilities ("Soft[ware] head," News: Analysis & Com- ary, June 26). As an employee of Development Corp. from 1991 to I watched him weather many s and remain on top. He's as as nails. If IBM is smart, they'll im into their inner circle and put put to good use. IBM is lucky to him on their team.

Mike Minelli
Rocky River, Ohio

EN & JERRY'S, LLOP OF HONESTY

e point overlooked in "Ben & Jer- l on themselves" (Up Front, June that the company is still one of ery few in this country that for- reviews its social performance on ular basis and shares it openly employees, stockholders, and the al public. As a stockholder, I don't tically expect a corporation to er the complexities of running a ess without any challenges. I do, ver, expect the corporation I hold in to be honest about current and challenges it is facing and about t plans to deal with them. That is on many corporations could learn Ben & Jerry's.

Kelley B. Shimansky
Falmouth, Me.

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Network

CITIZEN TURNER
The Wild Rise of an American Tycoon
By Robert Goldberg and Gerald Jay Goldberg
Harcourt Brace 525pp • $27

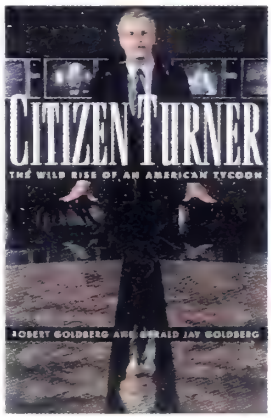
A PAGE-TURNER ABOUT TED

Each year, Ted Turner hosts a symposium in Atlanta called the World Report Conference. Ted foots the bill as journalists and experts from around the world hear and make speeches on topics from global warming to the population explosion to tyranny to genocide. He sits quietly in the audience during proceedings, but Turner is still the star. During a break at last year's conference, an official from the Singapore Information Ministry came over to share pleasantries with Turner. As the man turned to walk away, Turner pantomimed grabbing a baseball bat and striking three blows to the official's receding backside—an imaginary caning to his invited guest.

That's Ted Turner—high-minded but wacky and sometimes a bit scary. A self-proclaimed "citizen of the world," Turner is also infamous for boorish behavior, including ethnic and sexist slurs. An early "family values" advocate, his philandering and inattention to his children ruined two marriages. A visionary about the communications age, Turner still has to be restrained from risking his company with poorly executed deals. Paradox is the essence of the Ted Turner that emerges in *Citizen Turner: The Wild Rise of an American Tycoon*.

By now, the theories of how this remarkably complex, sometimes bewildering character came to be are well known. His psyche apparently was fashioned by an abusive, alcoholic, and remote father who committed suicide with a .38-caliber pistol in 1963. That left Turner, a 24-year-old college dropout, in charge of the family billboard business, the major assets of which his father had unloaded at fire-sale prices. Turner regained the assets, leveraged them into a tiny UHF station, and ultimately built one of the world's most powerful media concerns. But it was never smooth sailing. He pushed Turner Broadcasting System Inc. toward insolvency several times, most notoriously in 1984 by overpaying for MGM's film library. He lost a great measure of control over his company as a result.

Because all this has been covered in three previous biographies and countless print and TV profiles, the challenge for anyone trying to get a grip on Turner is to find something new to say. Gerald Jay Goldberg and Robert Goldberg, the father-and-son authors of *Citizen Turner*, don't fail for lack of trying. But Turner, they say, refused to cooperate—unless he could control the content.



The team rejected that option and soldiered on nonetheless. By getting Turner's first ex-wife and several close friends and former associates to open up, they do bring new texture to some familiar anecdotes. Robert Goldberg, a media writer for *The Wall Street Journal*, and Gerald Jay Goldberg, a novelist and English professor, have a highly readable style. And their emphasis on Turner's early years gives readers an entertaining exposure to one of the most intriguing people of our time. It's ironic, though, that a man who made so much money airing reruns of old movies should be chronicled in a book that so liberally recycles earlier works—while giving proper credit in copious endnotes.

But like watching *Gone with the Wind* on TNT, reading the book is an enjoyable experience, even if the story is familiar. One never tires of the yarns of party monster Ted at Brown University, a marriage that collapses after Turner rams his wife's boat in a regatta, the America's Cup win, the seat-of-the-pants decisions to launch such maj ventures as Cable News Network In and even the citizen diplomacy wit Castro, Gorbachev, and Arafat.

How much better a book it wou have been had the authors brought th same detailed attention to Turner's r cent doings. They note that Turner board won't let him spend more than $ million without a supermajority appro al. And they hint at the feuding th takes place on the board. But it's disa pointing that they were unable to brin new insight into the impact of boar room politics on Turner's $1 billion bu of the Castle Rock Entertainment ar New Line Cinema movie studios ar his dream of acquiring CBS or NBC.

The title, *Citizen Turner*, sugges parallels between Turner and Charle Foster Kane, the fictionalized Willia Randolph Hearst of *Citizen Kane*. Ar the authors come to the unstartling co clusion that, like Kane, Ted is brillia but bizarre. But the con parisons don't really hol up. Unlike Hearst/Kan Turner does not appear t be power-hungry. He has r consistent political agend Nor does he try to impos his worldview on his aud ence. Heck, he's not eve very mean. As a forme exec says of Turner's priz property: "CNN hasn't eve had a dogcatcher fired."

The real question abou Ted Turner is what's nex It has been 15 years sinc he created CNN and used informatio to shrink the world. His follow-up acts—the MGM deal, the purchase of movi studios, the launch of new entertai ment channels—are big, but they har ly smack of the vision thing. Hamstrun by a board that won't let him roll th dice with his company anymore, frus trated by his inability to acquire a maj network, and apparently happy to spen less time in the spotlight and more tim with his wife, Jane Fonda, Ted Turne now 56, seems stuck in neutral. An Turner watcher knows this center wi not hold. There's plenty of excitement i store, no doubt. But it's up to Turner next Boswell to bring it to us.

BY DAVID GREISIN

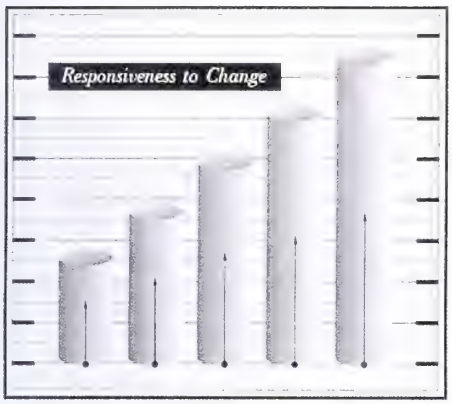
Greising is BUSINESS WEEK's Atlant bureau chief.

THE LATEST BIO BREAKS LITTLE GROUND BUT SPINS PLENTY OF TANTALIZING YARNS

by convention, bureaucracy and big-spending.

FLEXIBILITY

The varied demands of today's mar-
ketplace require small businesses to perform an increas-
ing variety of functions.



Whether it's in sales or finance, realty
or retail, flexibility is the new key to long-term success.
In these days of doing more with less, the way in which
companies allocate resources has changed. In the past,
financial clout often determined who came out on top.
Today, faced with competitive and market pressures
unimagined ten years ago, companies must now find

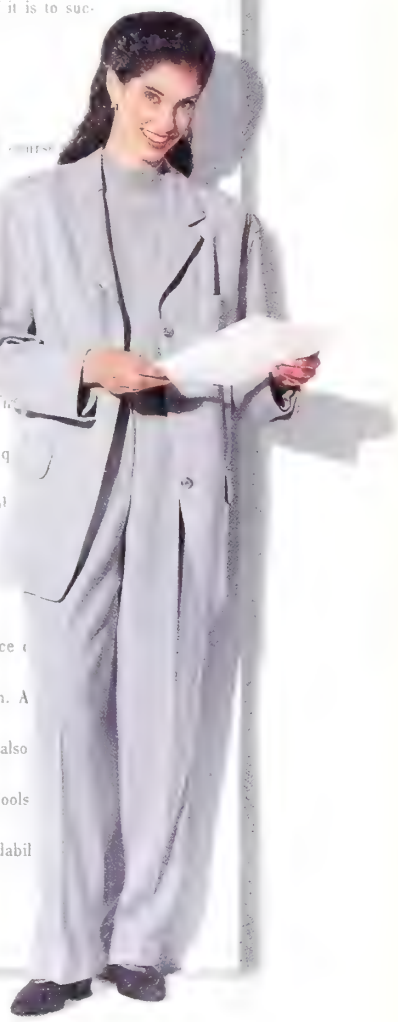
Flexibility and a sense of adventure must be a part
of any company's corporate culture if it is to suc-
ceed into the 21st century.

•

Large companies, of course,
a greater challenge than small bus
generally have an easier time implem
cies. But no matter what the size
companies with an adaptable stra
outlook are better positioned to capture
than their competitors; their ability to q
cus, or even redefine, their business o
sures their continued success.

•

Willingness to embrace
just the beginning of this reorientation. A
response to rapidly evolving situations also
a careful selection of business tools. Tools
chosen for their versatility and dependabil



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From envelopes to index cards, letter-size to legal-size, the new HP LaserJet 5P tackles whatever comes its way. With two paper trays, the ability to print up to 10 wrinkle-free envelopes at one time, crisp 600-dpi print quality, and six-page-per-minute speed, it's the perfect printer for your business. Beyond all this, new wireless infrared printing ensures built-in flexibility into the future.

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HP LaserJet Printers
Just what you had in mind.

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BY STEPHEN H. WILDSTROM

WHY STEVE CAN DRAW

Over the years, I have learned many skills, but my drawing ability has never advanced beyond stick figures. A couple of semesters of drafting classes in high school left me convinced that if I ever expected to make a living, I'd be better off choosing a field that didn't require ruling pens and T-squares. But suddenly, in middle age, I can draw. Credit a clever computer program called Visio for Windows from Visio Corp. (206 521-4500).

Unlike many of today's bloated Windows programs, the $129 Visio doesn't try to be an all-purpose graphics program. It does one thing very well. It allows even folks like me to assemble predrawn objects into professional-looking charts, diagrams, and drawings. It's also easy to insert the results into your report, slide show, or other presentation. You can paste a Visio drawing into most Windows programs, and some, such as Microsoft Word, can even get a Visio button on their toolbar.

QUICK DRAW. Visio's basic metaphor is the plastic shapes template that is familiar to anyone who ever took a mechanical-drawing class. The right side of the screen is a drawing surface that looks like a sheet of paper. On the left is a template from which you drag a variety of shapes into your drawing. You select the template from a menu of 22, covering everything from electronic circuit symbols to corporate organization charts.

The power lies in what Visio terms "smart shapes." (The company was called Shapeware Corp. until earlier this year.) You can resize the shapes by dragging on a corner. You can also rotate them, or flip them horizontally or vertically.

Many shapes, however, have kinetic abilities that go way beyond these obvious manipulations. For example, the map symbols template has a "flexible road" that can be dragged into the shape of your choice, with route numbers that can be added later. The space-planning template's door shape automatically creates an opening when it's dropped on a wall. It takes a good deal of practice, though, to learn all the tricks that can be done with the shapes you use.

The way shapes connect together also shows intelligence. If you use a conventional drawing program to create an organizational chart, for example; and then have to move a box, you have to redraw the lines linking it to other elements. In Visio, connecting lines can stretch, shrink, even bend as needed. In a flowchart, for instance, you can add a new box by dropping it on top of the line linking two existing boxes.

"SMART SHAPES." What might you use Visio for? I'm currently using the space-planning template to draw plans for converting my office into a more practical workspace for testing computer equipment. I recently was able to fill a request for a diagram of our office's local-area network with about 15 minutes of work.

A picture really can be worth a thousand words, and Visio makes it possible for people who are baffled by conventional computer drawing programs such as CorelDRAW! or Micrografx Designer to add high-impact illustrations to their work.

In addition to the standard templates, Visio offers an assortment of specialized stencils for drawings tailored to specific areas ranging from chemical engineering to kitchen layout for $29 apiece. You can also create your own shapes from scratch.

Visio 3.0, the current edition, has been around for less than a year. A new version that is designed to take advantage of long file names and other Windows 95 features will start shipping in late August. I use Visio for everything from charts to maps to driving directions. It's a good addition to any Windows user's tool kit.

ILLUSTRATION BY PHILIP ARNEBERG

BULLETIN BOARD

LAPTOPS

VERSA-TILITY

In the world of notebook computers, "low-cost" used to mean "virtually useless." But today's laptops offer dramatically more for the money. A good example: the Versa 200 series from NEC Technologies (800 632-8377). For a street

price of just under $2,000, you can now get a laptop with a 10.4-inch passive-matrix color display, a 75 megahertz 486 processor, a removable 350 megabyte hard drive, and a built-in fax modem. Most users will want to spend about $200 more to double the standard RAM to 8 megabytes. Other options include an active-matrix display and hard drives to 720 megabytes.

FAXES

MODEM ART

Want to get more out of your fax machine or fax modem? 3D Fax from Infolmaging Technologies Inc. (800 966-1140) can convert computer files to a pattern of dots, allowing multiple-page documents to fit on a single sheet. When received by a fax modem or scanned into a computer, Infolmaging software converts the dots back into text or other files. A limited version can be downloaded over the World Wide Web from http://www.infoimaging.com. A commercial version of 3D Fax costs $99.

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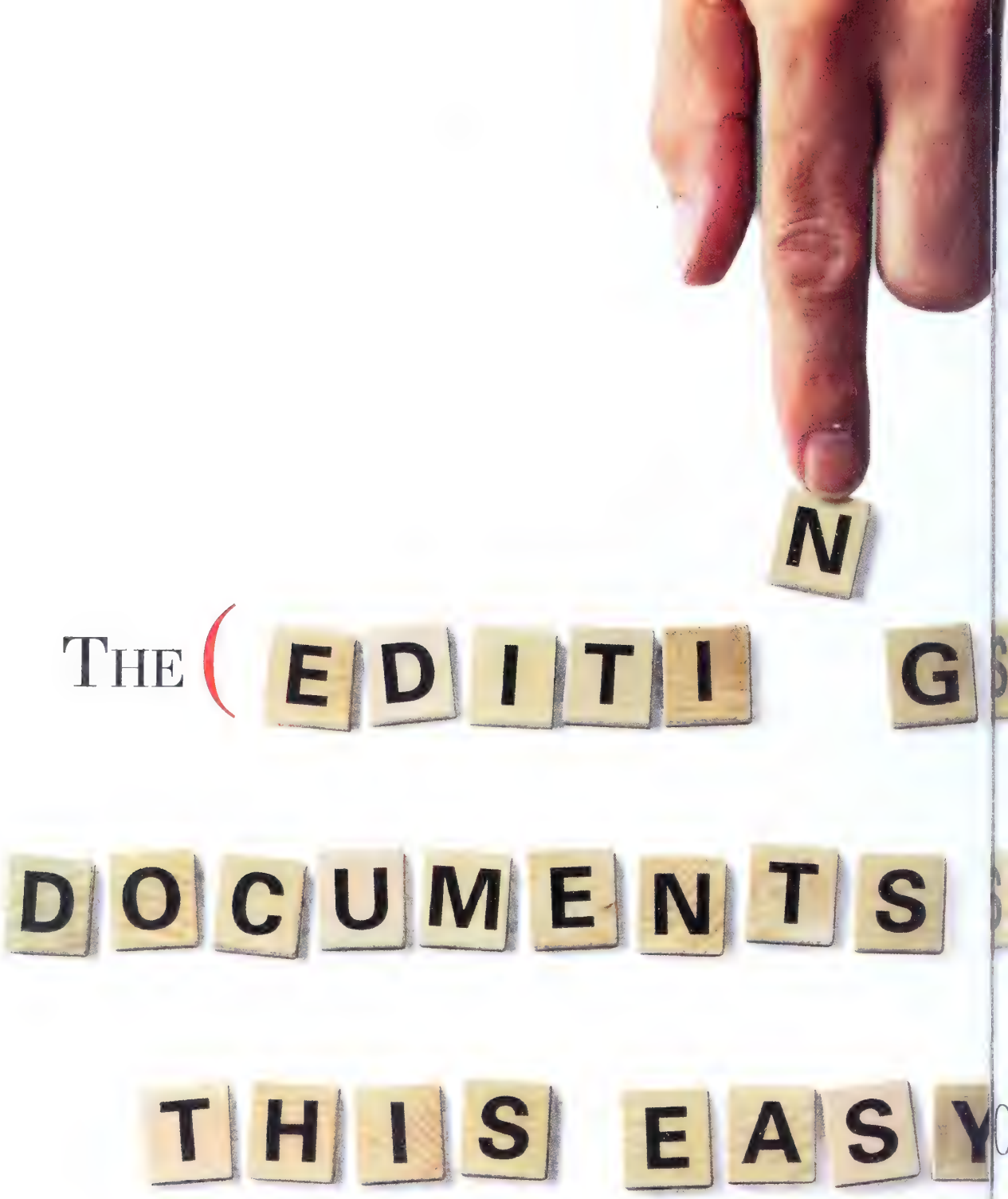

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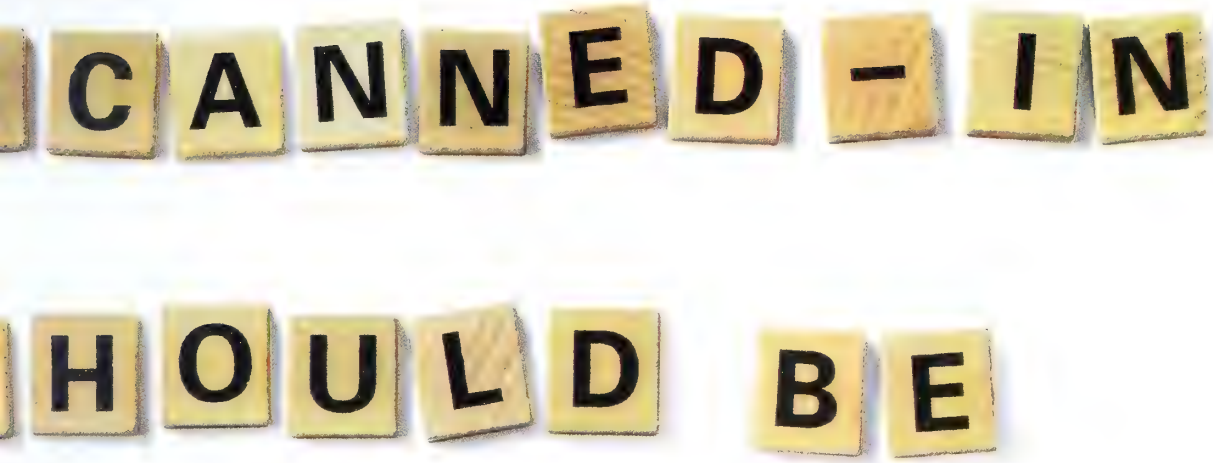

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BY PAUL CRAIG ROBERTS

HOW CHILE MAY LOSE ALL THE GROUND IT HAS GAINED

VENDETTA: Leftists want to cancel the amnesty given to the military for its past deeds–a move that could yield dire economic consequences

Economic and political reforms put in place by Chile's military government under General Augusto Pinochet during the 1970s and 1980s have created a constitutional democracy and a thriving economy that are the envy of Latin America. Chile privatized not only its state industries but also the social security system. This created a vast capital market, gave Chileans an equity stake in the economy, and boosted the savings rate to 26% of gross domestic product. In an era when emerging countries depend more and more on capital infusions, this means unusual financial independence for Chile. The crisis following the Mexican meltdown barely touched it.

This great economic accomplishment is now being jeopardized by a naive President, Eduardo Frei, and a Supreme Court that together are permitting the political left to rekindle the internal warfare that has in the past prevented Latin American countries from attaining their promise. The left's goal is to overturn the 1978 law that granted amnesty both to left-wing terrorists for their bombings and murders and to the military for its actions in suppressing the terror. They want the amnesty for the military revoked, but not for the terrorists.

The amnestied terrorists are attempting to use the political process to take revenge against the military government that blocked a communist takeover of Chile. Their vehicle is the case against two officials, which the military has agreed could go forward, who are held responsible for the assassination in 1978 of Chilean leftist Orlando Letelier in Washington. The tactic of the left is to use the blood drawn by the convictions of these two officials to demand more investigations and convictions.

LOVE OF IDEOLOGY. Leftists have set their sights on the military because it is the strongest Chilean institution. It is unified and has done well by the country—first restoring stability and then voluntarily stepping down in 1990, following free elections that brought in a civilian government.

The left believes that if it can break the military, it can turn to its real adversary: constitutional rule itself. The left always prefers the rule of ideology to the rule of law, and it hates the private capital markets that strip government of its power. The left's real target is not General Pinochet, but the Chilean economic miracle that is destroying its political constituency.

The government of Patricio Aylwin, wh succeeded Pinochet, respected the amnest and thereby permitted the still fragile institu tions of a free society to strengthen. But Fre lacks the wits to see what is at stake. Th Supreme Court has created an opening fo the left by ruling that whereas the amnest cannot be overturned by prosecutions, inves tigations of the military may go forward.

The military is duly alarmed. It realize that once the amnesty is breached by "in vestigations," propaganda will lead to prosecu tion. Deals will be offered to some officers a the expense of others: As soon as the militar begins throwing its own to the wolves, it wi be demoralized and broken. Consequently, th military has replied to the breach of amnest by stating that one official will go to a mili tary jail under its jurisdiction, and the othe will not go to jail.

CALL FOR PARDONS. "We consider this to be technical coup," declared a Frei official, "an frankly we don't yet know how to respond– because it's us against the army, navy, an air force at this point." If the governmen were competent, it would issue a pardon o the convicted officials and declare that th charges and countercharges are a matter o the preconstitutional past over which the gov ernment has no jurisdiction. This would pre vent the left from creating a self-serving crisis

Fortunately, some politicians realize th stakes. Senator Adolfo Zaldivar, a membe of the ruling coalition, has declared that th amnesty must be respected and the investiga tions halted. Other senators, such as Migue Otero, have called for pardons for the tw officials—to match the pardons granted ter rorists—so that the country can move on t its future rather than back to its past.

Ultimately, Chile's fate rests in the hands o the electorate. If its judgment is no bette than that of President Frei and the Suprem Court, then the Chilean miracle may soo come to an abrupt end. Investors and curren cy traders are watching closely. If the lef succeeds in its vendetta against the military none of the weaker institutions of the consti tutional order will stand. The government's fi nances, the strength of the currency, and th private pension wealth of the population wil all be lost if the left succeeds in its attack o Pinochet and his legacy.

Paul Craig Roberts is John M. Olin Fellow of the Institute for Political Economy and Distinguished Fellow of the Cato Institute in Washington, D.C.

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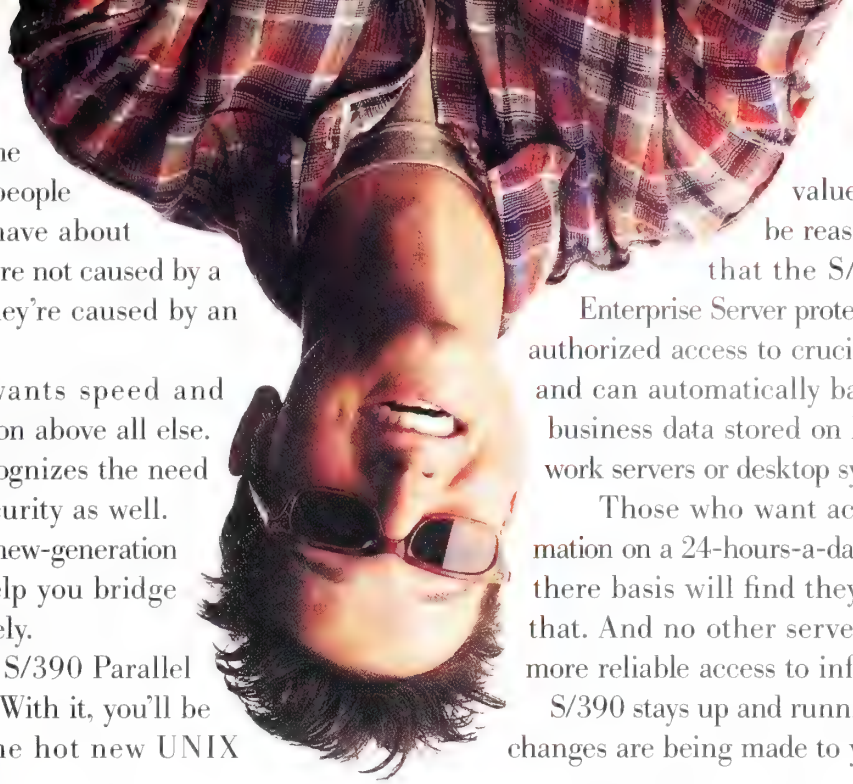

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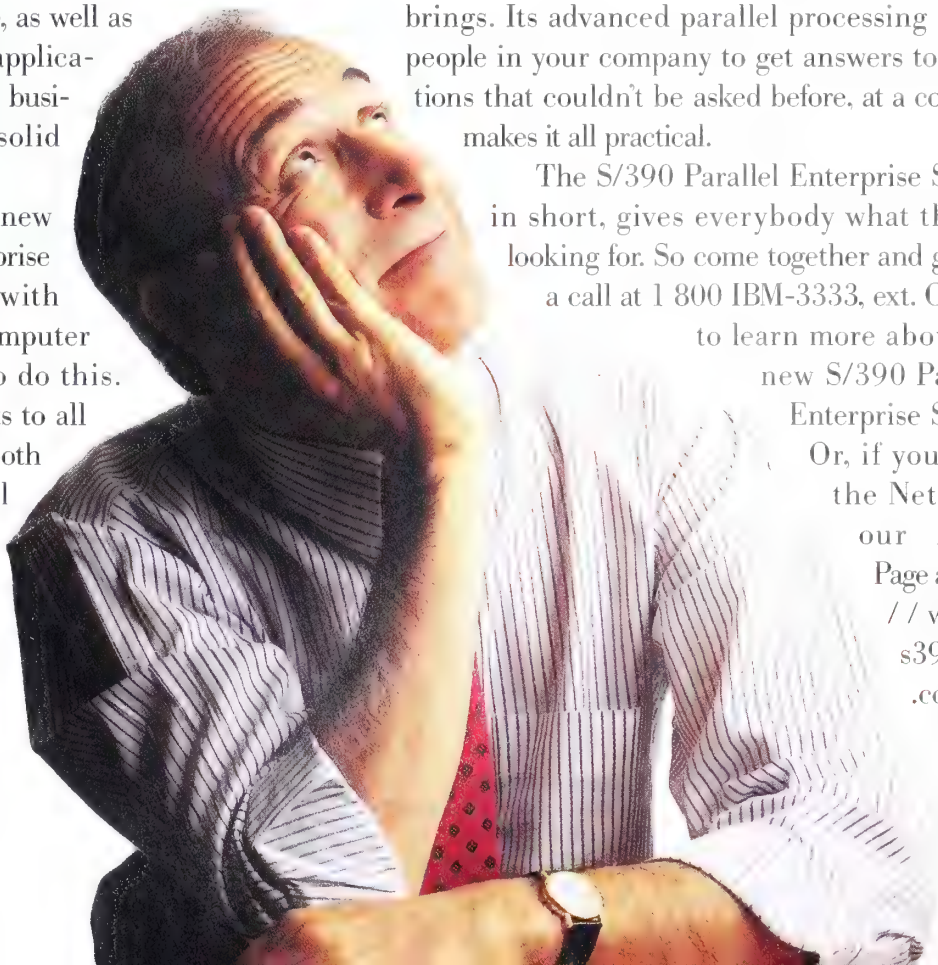


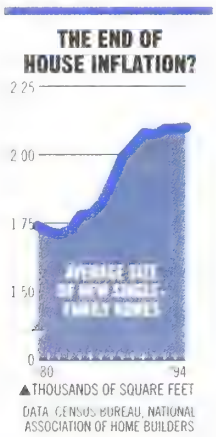
BY MICHAEL MANDEL

JUST ENOUGH LIVING SPACE

New-home size has leveled out

Has America's love affair with bigger homes cooled off? A new report from the National Association of Home Builders (NAHB) based on Census Bureau data shows that in 1994 the average new single-family home had 2,100 square feet of living space. This marks the fifth straight year that the size of new homes has not changed, in sharp contrast to the 21% increase in square footage in the 1980s and the 15% hike in the 1970s.

If the size of new homes stays level, this could have implications for individual finances and the overall health of the economy. The increase in new-home sizes in the 1980s put tremendous pressure on household budgets, since housing and related costs account for a third of all consumer spending. Besides costing more, bigger houses mean more spending on furniture, repairs and maintenance, and heating and cooling. If Americans are willing to give up the added space a bigger house brings, they will have more money to spend on other items, even if incomes remain stagnant.



DATA: CENSUS BUREAU, NATIONAL ASSOCIATION OF HOME BUILDERS

A slowdown in home-size increases could also boost U.S. competitiveness. During the 1980s, Americans put much of their savings into their homes. Residential capital stock per person rose by 16%, sucking away funds that could have been used for business investment.

But not everyone believes that Americans have given up on bigger homes. Gopal Ahluwalia, director of research for NAHB, expects that new-home size will rise by 100 square feet over the next three to five years, as baby boomers hit their prime earning years and trade up. In addition, the trend of working at home will mean more people looking for homes with offices. But with housing markets still weak, there's no evidence yet of a resurgence of larger homes.

PENSIONS MAY NOT BE SO PUNY

A study says surveys are flawed

The elderly may be better off than the government's numbers show. According to a new study by Watson Wyatt, a human resources consulting firm, Census Bureau surveys of income far understate the amount of pension income going to retired Americans. For example, in 1990 the Census numbers showed $77 billion in pension benefits paid to the elderly. But according to Sylvester Schieber, director of research at Watson Wyatt, the true amount of pension benefits was closer to $112 billion, based on analysis of tax data.

Why the difference? According to John Sabelhaus, an economist at the Urban Institute, the government's problem is that its figures are based on survey data, which depend on accurate responses. As pensioners get older, they may not easily be able to tell an interviewer precisely how much money they are getting or where it is coming from. One consequence of the missing $35 billion in pension income: The government's numbers say that about 12% of Americans over 65 are below the poverty line—but the true poverty rate for elders may be much lower.

FOREIGN OWNERS PAY NICE BUCKS

In the U.S., it means 10% or more

Increasingly, the factory down the street may be owned by a foreign company. Foreign direct investment into the U.S. has tripled over the past two years, leading to a heated debate over the pluses and minuses of foreign ownership. Do foreign companies set up low-paying operations in the U.S., or does foreign investment create new opportunities that benefit workers?

The upbeat view of foreign investment gets support from a new study by economists Brian Aitken of the International Monetary Fund, Ann Harrison of Columbia University, and Robert E. Lipsey of the National Bureau of Economic Research. The three discovered that in Mexico, Venezuela, and the U.S., workers employed by foreign-owned businesses tend to have higher wages than other workers in the same industry.

In the U.S., this wage differential comes to about 10%. But the economist note that there's a spillover effect. I the U.S., higher wages in foreign-owne businesses seem to push up wages i domestic-owned competitors as wel That's a welcome development at a tim when wages seem to be lagging.

NO SHRINKING GOVERNMENT

Local civil service hiring rises

For all the talk of public-sector downsizing, the trend among most stat and local governments is in the other direction. Driven in part by school hiring, state and local government employment is up over the past year by abou 1.5%.

Leading the public hiring parade i Texas, which has added 42,000 jobs i state and local government over th past year, about 60% of them in educa tion. At the other end of the spectrur is New York—in particular, New Yor City. Over the past year, the Big Appl

Where Government is Hiring....

	CHANGE IN GOVERNMENT JOBS OVER LAST YEAR* (THOUSANDS)
TEXAS	37
FLORIDA	22
NORTH CAROLINA	19
CALIFORNIA	13
GEORGIA	13

....And Where It's Cutting

NEW YORK	-32
DISTRICT OF COLUMBIA	-17
WEST VIRGINIA	-4
VIRGINIA	-3
MAINE	-2

*federal, state, and local

DATA: BUREAU OF LABOR STATISTICS, BUSINESS WEEK

has cut some 26,000 government jobs, o some 6% of its payroll, according to th Bureau of Labor Statistics. Those cut put it far ahead of the rest of the coun try in terms of government downsizing

Perhaps the strangest case is Cali fornia. Despite the state's well-publi cized fiscal difficulties, its state and loca governments added some 20,000 work ers over the past year. And what abou hard-pressed Orange County? So far the local government has trimmed abou 1,500 out of 90,000 jobs from its payroll with many more cuts likely to come.

AMES C. COOPER & KATHLEEN MADIGAN

HE BATTLE OF THE INVENTORY BULGE AY BE WINDING DOWN

U.S. ECONOMY

Every so often, inventories leap out of their arcane role in economy and into the spotlight. Right now, they are star of the show.

st year, when demand boomed unexpectedly, busi-es by necessity added to their stockpiles at a r rate. Now, after higher interest rates have nered housing and durable goods generally, inven-s look top-heavy in several key industries, espe-y in autos. As a result, factory output has fallen our consecutive months.

The crucial question in the outlook is: How fast are companies whittling down their excess inventories? The worry is that the inventory adjustment now unfolding will drag on amid weak demand and begin to feed on itself, as cutbacks in employment weaken incomes and spending even more. That's how slowdowns turn into recessions.

e good news is that so far, the damage from the ntory correction has been contained on the produc-side of the economy. In that regard, it's not surpris-hat the nation's purchasing managers continued to rt signs of weakness in the industrial sector in .

t based on the latest data on home sales and car ng and on weekly reports from retailers, the inju-as not spread to demand. In fact, there is an in-ing amount of evidence that even hard-hit interest-tive areas are beginning to stabilize. That strongly ests that the inventory adjustment will proceed ly without killing off the expansion.

SUMERS, most importantly, are giving off up-vibes. Their May spending on goods and services, sted for inflation, was especially strong. Outlays re-ded 0.6% in the month, following a 0.3% dip in (chart). A pickup in car buying and another solid in service outlays led the May advance.

e bounce means that second-quarter consumer ding was a bit stronger than many analysts had ipated. Even if June outlays rose only slightly, h seems likely, real consumer spending last quar-till rose at an annual rate of about 2%. That's a that will help to clear out excess inventories suggesting that consumers still have something to contribute to economic growth in the second half.

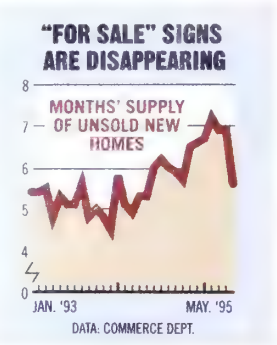
Much of that contribution will depend on how households view the future. In June, the mood of consumers depends on whom you ask. The University of Michigan's index of consumer sentiment showed that households were more optimistic in June than in May, while just days before that report, the Conference Board said that its June measure of consumer confidence dropped sharply.

But regardless of which measure is right, if consumers were about to bail out of the expansion, they wouldn't be snapping up homes and cars the way they are. On the heels of a 4.7% jump in May sales of existing homes, the Commerce Dept. reported that purchases of new homes surged 19.9% in May, the largest gain in 3½ years, to an annual rate of 722,000.

And in June, sales of U. S.-made cars and light trucks stood at an annual rate of 12.6 million. That's slightly above May's level of 12.5 million, which was up smartly from the 11.9 million annual pace in April.

HOMEBUILDERS AND AUTO MAKERS, for their part, are making headway in the battle of the inventory bulge. May's strong home sales cut the supply of unsold homes down sharply, to 5.6 months, the lowest in a year (chart). That rate is down substantially from February's 7.2 months level, a 3½-year high.

And carmakers, who had already reduced their supply of unsold cars from an excessive 78 days in April to only 68 days in May, made further progress in June toward the more desirable 60-days total. That would reduce the need for further output cuts.



In fact, current production schedules for the third quarter indicate that car output, after being a big drag on industrial production this spring, is now ready to provide a lift for overall output this fall.

The sharp decline in long-term interest rates this year explains the firmer tone of the housing market. And better housing demand cannot help but put a floor under the recent weakness in sales of home-related durable goods, such as furniture and appliances. That will help clear out the inventory overhang in those sectors as well.

With demand at least holding its own, businesses generally are upbeat about the coming months. Nearly

ERIC HOFFMANN/BW

two-thirds of the 3,000 executives surveyed by Dun & Bradstreet Corp. expect third-quarter sales to exceed their year-ago level, and the overall level of business optimism remains firm for the third quarter in a row.

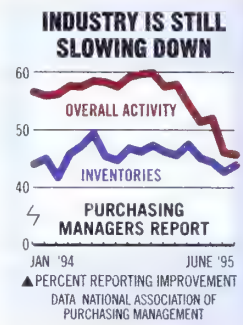
The survey results, which D&B says have a strong track record of predicting turning points in the economy, indicate that conditions that might lead to a recession are not present and that the current weakness is simply an adjustment, especially in inventories.

THAT REALIGNMENT of stock levels continued in June, according to the National Association of Purchasing Management. The NAPM's index of industrial activity—comprised of readings on output, orders, employment, inventories, and delivery speeds—dipped to 45.7% in June, down from 46.1% in May (chart).

That's the second consecutive month in which the NAPM's index has fallen below the 50% mark that divides expansion from contraction in the manufacturing sector. But while the weakness was broad, the employment and inventory indexes appeared to stabilize, albeit at a low level, after sharp declines. That could be a sign that softness in the industrial sector is starting to bottom out.

Of course, how fast that happens will depend on the course of inventories. The latest government inventory data cover only the manufacturing sector through May, but they already show that factory inventory growth has slowed a bit from its first-quarter pace. Manufacturers' stockpiles rose 0.6% in May, against a 0.5% rise in shipments. First-quarter inventory increases had averaged 0.9% per month.

Looking ahead, the happiest news from manufacturers is a 1.4% increase in their new orders, following three months of declines. That suggests that there will be further progress in cutting inventories down to size.



Makers of nondurable goods still see weak demand, however. Orders for soft goods, such as textiles and chemicals, fell 0.1% in May, and the ratio of inventories to sales for nondurable goods rose again for the fifth consecutive month. Some of that increase probably reflects the very sharp increase in retail inventories of apparel in recent months.

In case you're still worried about the second half, keep in mind that while every recession contains an inventory correction, not every inventory correction has been associated with a recession. As long as demand, especially by consumers, stays firm, the current adjustment will be quick, with minimum damage to the economy.

SINGAPORE

A LIGHT TAP ON THE ECONOMY'S BRAKES

The ripple effects of the softer Japanese and U. S. economies are certain to give Singapore a bumpy ride into 1996. The official June forecast from the Monetary Authority of Singapore (MAS) cited the slowdown in the nation's two major markets as a key reason why Singapore's economy will grow only 7% to 8% in 1995.

Already, first-quarter real gross domestic product was up just 7.3% from a year ago, vs. 10.1% for all of 1994. The MAS said nonoil exports would grow 10% to 15% this year. While still a healthy clip, that's only about half of last year's 23% surge. One help will be strong demand elsewhere in Asia, where about half of Singapore's exports are sold.

Industrial activity, however, is weakening. First-quarter output rose 7.6% from a year ago, the slowest in two years. And April output was up just 4.5% from a year earlier. Although some of the weakness was because of temporary shutdowns in the petroleum and drug sectors, Singapore's major export industry—electronics—is slowing.

Singapore's problems are twofold. First, demand for computer-related items is falling in the U. S. and Japan. The two countries buy more than a quarter of Singapore's total exports, and, excluding re-exports, electronics are about half of their outgoing shipments. Also, the Singapore dollar has appreciated 13% over the past 1½ years. That loss of price competitiveness is kicking in just as demand is waning.

The good news: The country's strong dollar is taming inflation. In the year ended in May, consumer prices were up 2.1%, down from the year earlier's 3.1%. But unit labor costs are rising about 5% a year. So, offering relief, the government in December loosened restrictions on foreign workers.

Singapore is clearly not in danger of recession. And after the double-digit growth of the past two years, a downshift was inevitable. The weakness in the U. S. and Japan, however, has just shifted the gears more quickly than expected.

With Bruce Einhorn in Hong Kong

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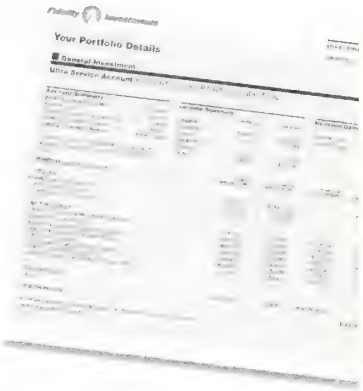

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TRADE

ROUGHER TRADE

The U.S.-Japan chasm widens

Washington and Tokyo trade warriors, after clicking the abacus of national self-interest, narrowly averted a trade war over Japan's auto and auto-parts markets. But make no mistake: U.S.-Japanese trade relations are on a nasty trajectory. Prodded by Eastman Kodak Co., the Clinton Administration on July 3 launched an investigation of Japan's photographic film market. And Tokyo, once again, has struck a defiant stance.

With feuds looming over aviation rights, semiconductors, government procurement and telecommunications (table), the rivalry between the economic superpowers is heating up. At issue: a clash over the shape of the post-cold-war trading system. Japan's mercantilist-leaning economy—shielded domestic markets, price-gouged consumers, and aggressive exporters—is under attack by free-traders in Washington. Europe is putting the pressure on, too.

Subtle changes under way in Japan suggest plenty of conflict ahead. A new band of economic nationalists now control Tokyo's trade diplomacy. Led by International Trade & Industry Minister Ryutaro Hashimoto, they are becoming less willing to countenance U.S. hectoring about Japan's fortress economy. MITI mandarins feel Japan blundered by bowing to past U.S. demands such as the 20% market-share target in a 1991 semiconductor pact and the $19 billion worth of auto parts outlined in a 1992 deal. "We have had bitter experiences centering around numerical targets," seethes Hisashi Hosokawa, MITI's director-general of international trade policy.

"RIGGED." That's why the just-completed agreement on Japanese autos and parts is viewed as an absolute triumph in Tokyo. True, U.S. companies won better access to Japan's lucrative replacement-parts market and domestic dealerships (page 32). Clinton also scored politically at home, especially with the blue-collar crowd in America's industrial heartland.

But the deal lacks strict enforcement mechanisms to ensure that Japan's carmakers stick to their goal of buying an extra $9 billion in parts. More broadly, says Chalmers Johnson, president of the hawkish Japan Research Institute, the accord doesn't tackle the "rigged structure of the Japanese economy."

Take Japan's "shaken" system of government-licensed auto garages, which effectively shut out foreign rivals. Hashimoto has promised to review rigid inspection requirements that steer business to local companies. After U.S. pressure, new rules that took effect on July 1 were billed as halving the number of required inspection rules and giving consumers the option to get their cars tested at national inspection sites. Then, they could arrange for repairs on their own—and go bargain-hunting.

Yet when T.W. Kang, managing director of consulting firm Global Synergy Associates, recently took his 10-year-old

The Heat On Tokyo

World trade complaints against Japan

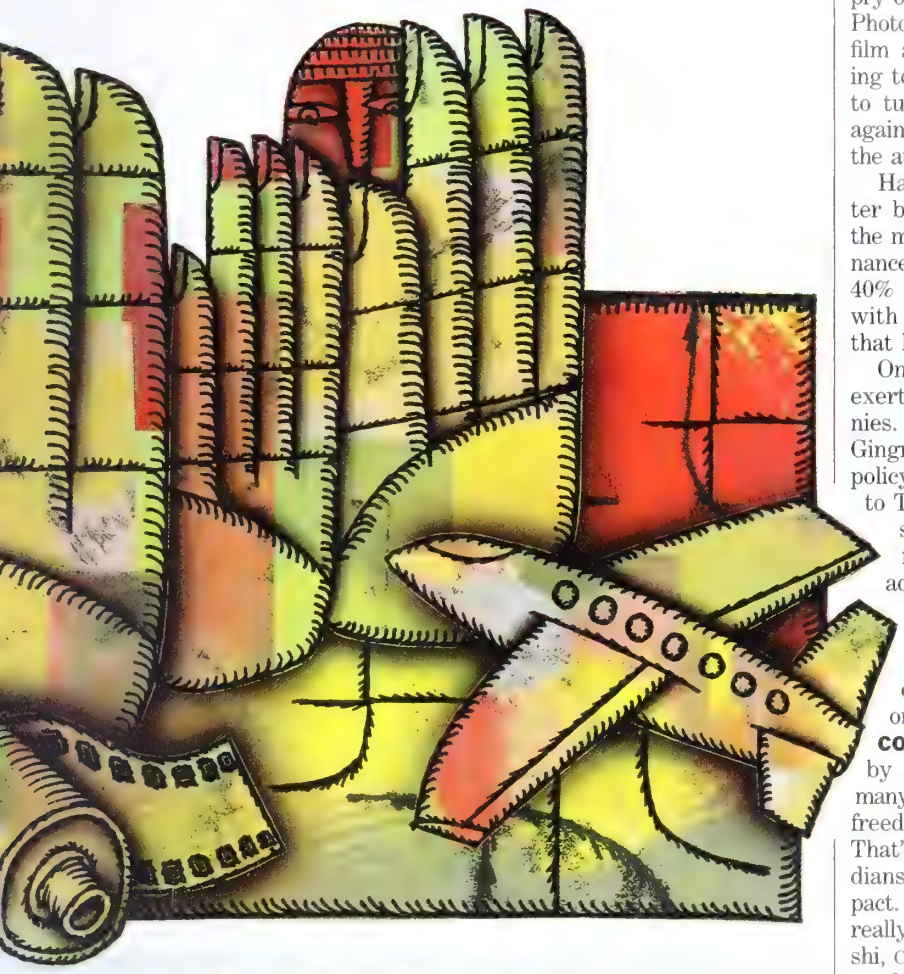
AVIATION

The U.S. and Japan have exchanged threats to withdraw landing rights from each others' carriers in July if Tokyo doesn't let Federal Express add flights between Japan and other Asian nations.

CONSUMER FILM

U.S. trade negotiator nounced on July 3 th they will press Eastm Kodak's complaint th Fuji Photo and Tokyo cials have conspired limit Kodak's access the Japanese market

ngrich blasted trade policy on July 5, urging nton to give Japan a taste of its own medicine



ONDUCTORS

n and Tokyo are er extending a that insured companies 20% market. The een reached, ct expires in

SPIRITS

In a World Trade Organization case filed in June, the European Union is challenging Japanese taxes that the EU contends discriminate against the sale of foreign alcoholic beverages.

TELECOMMUNICATIONS

The U.S. will highlight failure of a 1994 agreement with Japan to spur Japanese purchases of foreign telecom equipment when the accord comes up for review later in July.

ta in for inspection, he found few able government sites. And inspec- by dealers, he found, are as convo- as ever. Result: a $1,300 repair bill. re appears to be change, but the rlying dynamic remains," says Kang. r from dismantling most trade bar- Tokyo's rising trade stars are ag- ively peddling their brand of capital- throughout Asia. Finance Ministry tor-General of International Finance ke Sakakibara—Japan's lead nego- r in stalled global financial trade talks—even authored a book called *Beyond Capitalism* about the triumph of Japan's interventionist economic style.

The Administration may have miscalculated when it chose to back Detroit carmakers, widely perceived in Japan as corporate slackers. The impression is that "narrow U.S. corporate interests have hijacked a much more globally important relationship," says Toyoo Gyohten, Bank of Tokyo Ltd. chairman and the Finance Ministry's special envoy on international financial matters.

Now, a more assertive Japan may force the Clintonites to rethink the strategy of attacking specific Japanese markets. Washington wants to help Kodak pry open Japan's film market, where Fuji Photo Film Co. sells 70% of all consumer film and controls distribution. "It's going to be very hard for the government to turn around and threaten sanctions against Fuji, having stepped back from" the auto talks, says a Clinton trade hand.

Hawks think the U.S. needs to go after bigger game: the awesome clout of the mandarins, mainly at MITI and the Finance Ministry, who micromanage about 40% of domestic industrial production with a web of 10,000-plus regulations that keep foreigners out.

One place the U.S. may be able to exert leverage is with Japanese companies. On July 5, House Speaker Newt Gingrich (R-Ga.) blasted Clinton's trade policy and said the U.S. should respond to Tokyo's intransigence as the French sometimes do—by making life tough for Japanese companies. Gingrich's advice: Tell Tokyo all Japanese cars exported to the U.S. must pass through a sole inspection station in, say, Seattle manned by a staff of seven, half of whom would be on vacation at any given moment.

CORE MELTDOWN? Already unnerved by four years of economic stagnation, many Japanese multinationals want more freedom to shed capacity and workers. That's anathema to the ministry guardians of Japan's lifetime-security compact. "On much broader issues, the U.S. really has a point," says Yotaro Kobayashi, CEO of Fuji Xerox Co. "Japan really needs this kind of pressure to respond."

A certain amount of pressure is being generated from within, too. Take the current price-fixing row between Japan's Fair Trade Commission and Shiseido Co., a giant in Japan's $16 billion cosmetics market. The once toothless FTC has warned Shiseido to stop strong-arming retailers into not discounting its products—a charge the company denies.

If Washington and Brussels could ever put an end to their sniping and attack Japan's structural impediments before the new World Trade Organization, Japan could really feel the heat. U.S. Trade Representative Mickey Kantor's team is infuriated by European Commission trade chief Sir Leon Brittan's stiff resistance to government-backed targets on trade, which Brittan considers contrary to the principles of free trade. The U.S., which had pressed Europeans for more concessions, stormed out of multilateral finance talks on June 30.

Still, the EU has its own list of 250

trade disputes and has quietly tried to prod for deregulation in Japan. It also has taken its complaint against Japanese liquor taxes, which it claims discriminate against European brands, to the WTO.

Given all the pressures that are building, some analysts predict the core of U.S.-Japanese relations will change. "The relationship has been sold to the American public as providing an unsinkable aircraft carrier for maintaining stability out here and sold to the Japanese as guaranteeing the U.S. export market," says John P. Stern, Tokyo representative of the American Electronics Assn. "None of that is true anymore."

Whatever happens, the architecture of Japan's system will come under ever closer scrutiny. For now, the hard-liners are holding sway. During their recen marathon negotiations in Geneva, Hashi moto and Kantor goofed around at a photo-op with a kendo stick, a Japanese martial arts weapon. Next time around they may pull out the brass knuckles.

By Brian Bremner and William J Holstein in Tokyo, with Amy Borrus in Washington and Linda Bernier in Brussels

TRADE

DETROIT: DON'T RACE THE ENGINE

The trade pact isn't apt to help U.S. carmakers much

Motown honchos such as Chrysler CEO Robert J. Eaton were giddy when Japan and the U.S. struck a new auto trade pact in late June. No sooner had the new accord been announced on June 28 than Eaton declared that the deal will have "a tremendous effect on the global competitiveness of this industry."

Brave talk, but probably overblown. U.S. auto-parts manufacturers can expect a rush of new business from Japan from the pact. But the carmakers—which have portrayed the deal as a tool for pressuring Japanese rivals in their protected home markets—face formidable obstacles in cracking Japan. And if Japanese car companies honor their pledge to add production capacity in the U.S., they will lower their costs on key models—enhancing their own competitiveness. U.S. auto makers are being "foolishly optimistic," says Gene Williams, president of Cleveland's Auto Strategies International Inc.

To be sure, the Big Three were revving up sales efforts in Japan even before the accord. Taking advantage of the weak dollar, they have cut prices on many models. For the first time, they'll offer right-hand-drive versions of top models such as Chrysler's Neon and Jeep Grand Cherokee, Ford's Taurus, and GM's Saturn. They're expanding distribution networks, too. Chrysler Corp., for instance, just paid $100 million for a controlling interest in Chrysler Japan Sales Ltd., a distribution company. Ford hopes to add up to 700 dealers to its current network of 300.

Don't expect big sales, though. The trade deal notwithstanding, DRI/McGraw-Hill projects Big Three sales in Japan, including Made-In-Europe models, will only rise from 80,255 last year to about 200,000 by the year 2000 (chart). Leader Ford may hit 100,000 vehicles. "That's peanuts in a market that does seven million in sales annually," concedes Alexander J. Trotman, Ford's chairman.

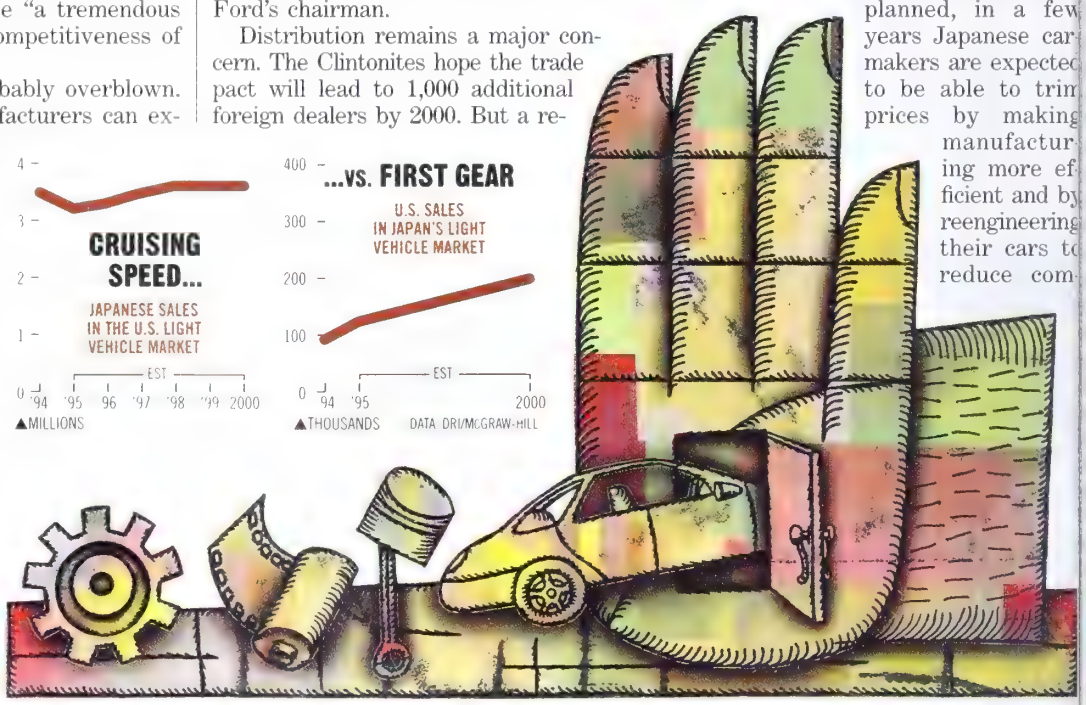
Distribution remains a major concern. The Clintonites hope the trade pact will lead to 1,000 additional foreign dealers by 2000. But a recent Japan Automobile Dealers Assn. survey identified only 24 dealers as interested in handling U.S. autos. In part, that's because existing Big Three outlets are struggling. In the past seven months, Ford's Japanese dealers have sold an average of 13 cars a month, far fewer than the 30 average at Toyota Motor Corp. Big bucks will be needed to turn things around, too: German carmakers have spent $300 million each on their networks in Japan, vs. about $100 million each for Ford and Chrysler.

Another concern: Detroit's prices in Japan may still be too high. For instance, Chrysler's Neon, which goes on sale there later this year, likely will sell for $18,000 to $24,000. That's $9,000 more than the model sells for stateside and well above the $11,000 to $19,500 that well-established rivals such as the Toyota Corolla go for in Japan.

SIMPLER CARS. In Detroit's own backyard, the trade pact will change little. Japanese carmakers pledged to add 500,000 cars per year in additional production capacity in North America. And while the new capacity has long been planned, in a few years Japanese carmakers are expected to be able to trim prices by making manufacturing more efficient and by reengineering their cars to reduce complexity. Now, Japanese cars that are made in the U.S., such as Honda's Accord and Toyota's Camry, cost at least $2,000 more than U.S. competitors' models.

The bottom line on this trade deal: The Big Three's best bet is to cork the champagne and get back to work.

By David Woodruff, with Keith Naughton in Detroit and Edith Hill Updike in Tokyo



COMMENTARY

By Amy Borrus

THE WORLD TRADE COURT IS THE RIGHT VENUE NOW

n the auto trade showdown with Japan, the U. S. hauled out a cannon to bag a pigeon. The accord rged in Geneva likely will spur odest increases in Japanese purases of U. S. cars and car parts. ut it doesn't hack away at the web collusive business practices that ake it tough for foreign companies sell shock absorbers—or most ything else—in Japan.

If the Clinton Administration is rious about cracking pan's markets, this is time to declare victo- and back off. The S. has a chance to arshal global frustra- on with a system that out of kilter with acpted norms. The Clinnites should challenge pan's rigged markets the new World Trade rganization by pressg ahead with a broad se documenting a patrn of blatant, unfair ade practices.

AILOR-MADE. It wouldt require much legork. Eastman Kodak . already has filed a assive complaint with merican officials that leges in excruciating tail the existence of a nspiracy between Tovo and Fuji Photo Film . to protect Japan's nsumer film market from foreign mpetition. Trade lawyers in Washgton believe that Kodak's cut-andied case is tailor-made to test the TO's ability to police anticompetitive havior.

Why bother? For one thing, it ould peel back the onion layers of panese *keiretsu*, or cartel-like busiess dealings, in a highly public forn. And a WTO case would elevate S.-Japan sniping about collusive actices into an international matter at would be far harder to shrug f. Both would make Tokyo squirm. panese consumers might realize st how much they're being ripped f. And pressure could build for anges that Japan's bureaucracy is sisting.

To be sure, the WTO is not designed to police all invisible barriers. So, Washington should also take House Speaker Newt Gingrich's advice and quietly squeeze Japan in the U. S. by using some of the same administrative tactics Japanese bureaucrats employ to fend off foreign companies. Meanwhile, taking Japan to the court would test the organization's reach and help defuse the growing controversy over section 301 of American trade law. That provision authorizes President Clinton to slap sanctions on another country if negotiations to eliminate unfair trade practices fail. But WTO rules forbid a member state from imposing such sanctions without the organization's permission.

If Clinton is serious about cracking Japan's markets, this is no time to declare victory and back off

CLINTON AND KANTOR: A LIMIT TO THREATS

In the auto dispute, the U. S. got a verbal drubbing in European and Asian capitals for unilaterally threatening $5.9 billion in punitive tariffs on Japanese luxury car imports. U. S. Trade Representative Mickey Kantor insisted the U. S. had the right to apply its laws in cases where WTO rules aren't strictly applicable. But that's hotly debated in legal circles. "We ought to try a case at the WTO looking at *keiretsu*-type exclusive behavior in Japan to resolve once and for all what aspects of anticompetitive practices are covered" by the new court, says Erin Endean, a lawyer with Washington consultants Hills & Co. who headed USTR's Japan desk in the Bush Administration. "If the WTO says it's not, we are perfectly justified in taking a 301 case and threatening sanctions."

Few countries in the WTO would object to a U. S. suit against Japan. Highly distrustful of Japan's mercantilism, the Europeans have slapped quotas on Japanese car imports. And officials of many Asian nations—even those mimicking Japan's industrial policy—feel victimized by Japanese resistance to reciprocal trading arrangements.

HARD SELL. There's a potential political payoff at home, too. A WTO ruling that comes down hard on Japan's cartel-like maneuvers would shore up American public support for the fledgling trade court. Right now, America Firsters are having a field day claiming that the WTO will trample U. S. trade law and national sovereignty.

In fact, both the Bush and Clinton Administrations championed the creation of the WTO because they viewed it as a means to advance American trade policy goals in much the same way that Presidents have used the U. N. to muster international support for U. S. geopolitical objectives.

It may be a hard sell to convince companies to become party to a legal test of such international proportions. But the alternative is worse: The auto battle ultimately fell into the same old rut of past U. S.-Japan trade showdowns. The U. S. threatened, and Japan conceded the minimum to ward off sanctions. That pattern must be broken. Rolling out big guns to bag small game just doesn't pay.

Borrus covers trade issues from Washington. She previously was based in Tokyo.

TRIPPETT/SIPA

CORPORATE BENEFITS

NEVER MIND THE 401(k) —HOW'S THE LEGAL PLAN?

More employers are offering prepaid law services as an option

For years, Alice and Gary Richardson feared that a collection agency would force them to pay $10,000 on a debt they said belonged to their son. No matter how much the couple protested, the agency kept coming. "We didn't know how to handle it," recalls Alice, a 59-year-old former office worker in Louisville, Ohio.

That all changed last August, when the Richardsons signed up with Pre-Paid Legal Services Inc., one of a growing number of outfits that are offering legal-aid plans to individuals. They quickly got legal advice—and got the would-be debt collector to drop its claim—all for $16 a month. "We had pushed aside our problems because we couldn't afford an attorney," says Alice. "Now, we have access to the best legal counsel we can find."

More and more, prepaid legal care is taking its place alongside such hot employee perks as elder care and day care. Typically offered as part of so-called cafeteria plans, which let workers choose from an array of benefits, these schemes have caught on with such employers as AT&T, American Express, and the Big Three U.S. auto makers. "This one is going to get into the common-benefits category," says Joseph A. Licata, manager of benefits at Salomon Brothers Inc., where 13% of employees have opted for legal plans.

FLAT FEE. At least six companies now administer group legal-plan services. The leader, Hyatt Legal Plans Inc. in Cleveland, sells its wares to PepsiCo Inc., among others, and says that the business is growing at an annual rate of 20%. In the past three years, Prudential LegalCare, a unit of Prudential Insurance Co., has seen its clientele quadruple, to 80 companies, including Sears, Roebuck & Co. Des Moines-based Midwest Legal Services provides prepaid plans to more than 500 companies, among them Microsoft Corp. and Procter & Gamble Co. "This is extremely attractive because it gives employees good value without the companies' having to put up dollars," says David A. Osterndorf, a benefits consultant at Towers Perrin.

Prepaid legal services operate much the same way as health-maintenance organizations for medical care. Workers pay a flat fee—typically $10 to $20 a month—in return for the right to use the services of a network of lawyers to handle everything from house closings to the drafting of wills. Even preexisting problems, such as divorce proceedings or the debt-collection issue that was plaguing the Richardsons, are covered fully or at a discount off regular fees. More unusual services, however, such as defense against criminal charges, are excluded.

BOON FOR LAWYERS. Although available for decades in Europe and through some U.S. unions, the concept has only now moved into the mainstream. The change has come partly because of aggressive marketing by plan providers. Also, employers and consumers both feel more comfortable with such benefits now, after experience with managed health care. "People understand the concept of paying a monthly fee and getting a basic service," says John Westergaard, an analyst who follows the industry.

Lawyers favor the plan because they help provide a steady stream of business and guaranteed payment in a tough climate. Riggs, Abney, Neal, Turpen, Orbison & Lewis, Oklahoma's third-largest firm, gets $100,000 a month from Pre-Paid Legal to handle the needs of state participants. Such plans also put lawyers in contact with clients they wouldn't be apt to see otherwise. "Most people hate the idea of getting a lawyer because they don't know whom to contact or how much they should be charged," says Christopher N. Giuliana, a lawyer in Clearwater, Fla., whose firm manages about 5,000 legal-plan cases a year. "The beauty of a prepaid plan is that you don't have to sit there and talk about fees—because they're already arranged."

Not everyone is jumping on the legal-plan bandwagon. Michael J. Butler, a benefits consultant at Hewitt Associates, says just 4% of the more than 600 companies his firm surveyed offered the benefit in 1994. An additional 10%, however, said they planned to offer coverage within three years. That could prove a nice perk for millions of workers—and a boon to the legal profession.

By Linda Himelstein in New York

RELIEVED: *Up to now, says Richardson, "we couldn't afford an attorney"*

THE NEW LEGAL BENNIES

What's covered under typical employer-sponsored legal-benefit plans

CONSULTATIONS Unlimited phone access to lawyers for inquiries about any personal legal problem

CONTRACTS Review and drafting of documents for such issues as buying a car or selling a house

ESTATE AND TAX PLANNING Writing of wills and counsel on a range of tax issues, including IRS audits

CONSUMER PROBLEMS Help with disputes involving product manufacturers, retailers, and debt collectors

TRAFFIC VIOLATIONS Advice on beefs with insurers or law enforcers over speeding tickets or other infractions

TRICO'S ALABAMA SITE: *Tax subsidies are under attack*

EL

IEAP STEEL DESN'T COME CHEAP

angry rival and the USW are out to stop Trico's new mill

ne land-moving machines are only ust starting to grade the sandy red oil of Decatur, Ala., site of the first mill to be backed by companies hree continents. Already, though, Steel Co. is creating a hullabaloo. joint venture between No. 3 U.S. maker LTV, British Steel, and n's Sumitomo Metal Industries, the ect marks a $450 million plunge by e big integrated steelmakers into atest generation of minimill technol- It fits into a neat global strategy: If works, says LTV Chairman David Ioag, the three partners could build mills in Asia and Europe.

RT FIGHT. First, though, some big les must be overcome down in e. The United Steelworkers, which Trico will operate a nonunion, low- plant and precipitate industry over- city, is fighting the mill tooth and "We'll do whatever it takes to stop ows Steelworker President George er. And Alabama's rival Gulf States Inc. is challenging Trico's generous age of state subsidies in court.

nion opposition alone could produce t headaches for 50% stakeholder and its two partners as the mill goes up over the next two years. In the past, LTV and the union regarded minimills as the common foe. Indeed, after LTV emerged from bankruptcy in 1993, it opened a $312 million revamped—and unionized—mill in Cleveland that it dubbed the "minimill killer." LTV and the union also mapped out a partnership strategy: Management gave workers job security, and the USW agreed to more flexible work rules.

Now, Becker feels "betrayed" by Trico, which is emulating the efficient labor policies at minimills. Pay will be tied to productivity and profits; work rules will be almost nonexistent. Trico says it wants mainly to hire workers with college or technical training, who can perform different jobs. Whether they join the union will be up to them. But Trico officials insist it will follow the lean minimill model, regardless of the vote.

Becker fears that Trico will pump steel into a glutted market, devastating his membership by forcing less efficient, unionized mills to close. It's not hard to understand his concern: Trico hopes to produce 2.2 million tons annually with 320 workers; unionized Gulf States produces 1.1 million tons, albeit a slightly richer mix, with 1,850 employees.

Becker, who has headed the USW for a year, isn't battle-shy. On July 1, when the United Rubber Workers voted narrowly to merge with his union, he inherited a year-long battle against Japanese tiremaker Bridgestone Corp. He addressed LTV's board on June 23, urging it to scuttle Trico. It likely won't, raising the specter of USW retaliation. Becker shies away from explicitly threatening a strike, but pointedly notes that the USW struck LTV in 1986 over health-care benefits. Outsiders say the union also could tie up Trico with environmental suits, grassroots campaigns, and sympathy protests by foreign unions against its partners—tactics it has used before.

OLD BEEF. The dispute is embittered by old grievances against LTV in Alabama. In 1986, LTV went bankrupt—and temporarily stripped health benefits from retirees of Gulf States Steel, which it had divested just before the bankruptcy. "There's a lot of bad blood here," says Gulf States CEO John Lefler. Gulf States also frets that competition from Trico will force it into layoffs. In a bid to halt the mill, Lefler is challenging the "unfair" state tax subsidies for Trico—which could amount to $80 million—in Alabama court. "No state should be in a position to subsidize one company against another," says Lefler. He contends the payments also may violate the General Agreement on Tariffs & Trade.

Almost lost in the fracas are the operational challenges Trico faces. Led by CEO Bill Wiley, an LTV veteran, it must master the latest minimill technology while taking on a host of strong regional rivals, including the king of nonunion minimill operators, Nucor Corp., which has a similar mill in Arkansas and another on the way in South Carolina. No big integrated outfit has yet challenged Nucor so directly. But for now, that just may be the least of Trico's problems.

By Stephen Baker in Pittsburgh, with Zachary Schiller in Cleveland

Trico will steal a leaf from the minimills' books, ashing most work rules and pegging pay to productivity

MICHAEL CLEMMER BLACK STAR

Another world's fastest chip

H-P claims its PA-8000 will outperform others

It's a title that seems to shift on a monthly basis, but Hewlett-Packard Co. announced a chip design Monday that it says deserves the title of the world's fastest microprocessor.

The PA-8000 chip will be part of H-P's line

instruction-set computing. H-P's workstations have bec der, controlling 32.7 per- cent of tl systems r analyst A

Shortages hit 486 suppliers

A worldwide shortage of 486 chips is starting to make life difficult for system vendors as Intel shifts semiconductor production in favor of Pentium ch

Advanced Micro Devic eet demand fo

HP lifts curtain on 64-bit chip, keeps mum on Intel project

Determined not to lose mind share in the processor game, Hewlett-Packard Co. last week provided a glimpse of its 64-bit PA-RISC 8000 architecture, which is still a year from delivery.

At the same time, officials at HP and Intel Corp. all but denied a wire service news report that said the results of the two companies' collaborative microprocessor development would rea in 1997 as Int

That report was based on co

Barrett, who

IN TUNE WIT

In showing that the 64-b UltraSPARC ar betting that 64-

"By the end c Larry Inman, HP don't see the valu

IBM, Motorola To Announce 64-bit PowerPC

64-bit PowerPC r, which IBM and will announce th, promises dra- provements in multiprocessing s over the 601, 04 chips, sources

to come —twice 604's ca The other apart Power

IBM, Motorola show off PowerPC 620 prototype; volume shipment expected in '95

IBM and Motorola are announcing the PowerPC 620 this week, the most advanced implementation of the PowerPC architecture to date.

As part of the announcement, the two companies introduced the first 620 prototype, with sample shipments to follow in the second quarter of 1995.

Volume production the second half

ial oce z in exte M sa 100 M ne fo pr is

1997 date set for delivery of HP/Intel P7

Intel Corp. acknowledged last week that the P7 will be the first chip to come out of the alliance formed with

per second (see "Pentium now, VLIW later," Jan. 30, page 1).

The basic concept of the VLIW is to have the comp

INTEL-HEWLETT-PACKARD ALLIANCE SEEN RALLYING A 64-BIT MICROPROCESSOR STANDARDS EFFORT

There are scant details of how Hewlett-Packard Co. plans to introduce technology developed under its

traffic. enough massive 64KB Level cache, most previous have had 32KB or

IBM accelerates revamp of OS/ PowerPC version due later this

As IBM ships the last of its promised OS/400 Release 3.1 components this week, it is paving the way for delivery of a completely redesigned, PowerPC-based OS/400 later

their respective server p The stakes are hi claimed an installed base AS/400s at the end of 1 sales growing by 50,000

IBM big iron revamps bode well for 95; Client/server OS, 64-bit architecture await AS/400

IBM has spent the past few years trying to answer questions about the ce in a client/server world. In will start to find out whether giant got it right.

server-oriented rewrite of the ting system is supposed to be February, following a

eagerly awaiting the coming makeover.

More Forward

IBM reiterates PowerPC co

IBM is expected to ship its long-awaited Po systems in June, but with a beta version of OS Lee Reiswig, general manager of the Person Products division, said at an analyst conferen Fla., last wee

HP set to launch PA-8000 systems not expected until

Hewlett-Packard Co. plans to announce its next Precision Architecture microproces- , on March 6.

is expected to achieve a rating SPECint92 and greater than 550 Those performance numbers are ge as the processor nears produc- niliar with the product said.

clock speed greater than 200 to the Microprocessor Report

Sun Microsystems Inc.'s Sparc Business and MIPS Technology In announced the architecture of their processors a year before they will products.

"It's sort of a liar's race," said editor of Inside the New Computer "The stakes keep going up."

The RISC chip makers are tryin have processors advanced enough mpete against each other but to

Sun announces untested 64-bit chip

Microsystems Inc.'s SparcTechnology ed the d the o next be ations d been at S ole in Ul a

compared to Digital's Alpha AXP 21164, which has a SPECint92 rating of 330.

HP, Sun's biggest rival, is shipping a PA-7150 processor that has a SPECint rating of 135 and next month will introduce the PA-7200, which is expected to have a SPECint92 rating of about 150.

Sun acknowledged the performance gap but

PowerPC Much hype, lit

PC Week via First!: Hannover, Germany -- IB Inc., and Motorola Inc. showed little restraint in h BIT here last week, but in private, officials f eir standard isn't ready for prime time range of PowerPC processors in the on price/performance, lagging systen t continues to keep the PowerPC fron niche and winning converts in the PC going to take two to three years for us to re ail Hester, general manager of IBM's Syste Division, in Austin, Texas "I don't have illusions overnight disc

'S NICE O SEE IBM ND HP GHTING VER WHO ILL BE UMBER 2.

In fact, it's downright heartwarming. Digital, of course, beat both of them to 64-bit computing long ago. And while neither one has a 64-bit machine to sell you, we're now on our second generation of 64-bit Alpha-based workstations and servers. Machines that offer price/performance leadership at every level. For example, our new AlphaStation™ 250 system is half the price of the comparably performing HP workstation! While our new AlphaServer™ 8200 and 8400 systems are the first and only servers capable of running the newest 64-bit database products —letting your application directly address up to 14GB of data in main memory, and giving you performance gains of up to one hundred times over 32-bit enterprise systems. Alpha-based systems run thousands of applications—including the ones you need most. And, thanks to the enormous capacity and scalability of 64-bit architecture, they'll work with your present equipment, and grow almost limitlessly as your business grows. Sure, it's possible that HP or IBM really will have 64-bit machines, eventually. But even when they start offering real-world 64-bit products, it'll still be years before they'll have been as thoroughly tested and evolved as ours are right now. So why wait? Whatever your business, whatever your budget, you can do what thousands of companies all over the world have done—and what IBM and HP have been unable to do—have a 64-bit computer you can call your own. For more information, contact your Digital business partner. Or call 1-800-DIGITAL. Or reach us via our Internet address: moreinfo@digital.com.

Digital's lucky chip

...sales of systems based on the Alpha chip have taken off, jumping 66% in the past year, and now exceed VAX sales. The chip excels at handling thousands of concurrent users–which is why regional phone companies

Digital Ships Its 100,000th Alpha System

Digital Equipment Corp. reports it shipped its 100,000th 64-bit Alpha system. The milestone is significant, in our opinion, in that competitors IBM, Sun, and Hewlett-Packard have yet to ship their first 64-bit product.

digital

TELECOMMUNICATIONS

A WINDFALL LOST IN SPACE

The FCC may crack down on quickie profits in satellite-TV slots

Back in 1982, when Daniel H. Garner heard that the Federal Communications Commission was giving away designated slots in space for satellite-TV operators, the Arkansas businessman jumped in and grabbed a few. Garner got then-Governor Bill Clinton to write a letter of endorsement to the FCC, and he drafted heavy hitters such as the late Wilbur Mills, ex-chairman of the House Ways & Means Committee, and ex-NASA Administrator James M. Beggs for the board of his Advanced Communications Corp.

GARNER: *Says his deal was "perfectly legitimate"*

Now, satellite TV is hot, and Garner looks like a genius: His company hopes to sell its free orbital "parking spaces" for a cool $45 million for use by PrimeStar Partners LP. There's just one hitch: The FCC is poised to bring the scheme crashing to earth. Agency insiders say that at its August meeting, the commission likely will deny Garner his pot of gold in a precedent-setting decision designed to send shock waves through the satellite-TV industry.

The FCC staff plans to recommend to the full commission that Garner be allowed to recoup only his expenses in any deal. His only other option: fighting the ruling in federal court. The case could give the FCC a precedent for stripping other speculators of their licenses, opening the business to new entrants. "You can't just take a public asset, not do anything with it, and then go off to the beach," says Scott B. Harris, a top FCC staffer. The recommendation is backed by Chairman Reed E. Hundt, who is expected to push a majority of the agency's five commissioners to go along.

WRINGING OUT. There's a larger message behind the FCC stand. It used to be that regulators would wink at those who got their licenses for free, then flipped them for a fortune. Now, the FCC is set to sell all new licenses at auction and wring out any speculators who are left.

Meanwhile regulators are coming under pressure to approve Garner's sale. Garner even persuaded the entire Arkansas congressional delegation to write to FCC's Hundt on his behalf. He calls his deal "perfectly legitimate" and says he might go to court if the decision goes against him. PrimeStar, which has 73 channels, wants Garner's slots so that it can expand its offerings to compete more effectively against rival DirecTV, which has 150 channels. No deal "would be a disaster," says PrimeStar Chairman James L. Grey.

Would-be PrimeStar rivals, such as MCI Communications Corp., are eager for the slots if the company's deal with Garner falls apart. But despite the pressures, the FCC is close to a big policy change: After letting its valuable property sit idle for years, the agency is determined to inject a dose of competition into this emerging business.

By Mark Lewyn in Washington

ALT.MONEY@DOWN.THE.RATHOLE.COM?

The switchboard at Netscape Communications Corp. has been jammed for days. On June 23, the Mountain View (Calif.) maker of software to navigate the Internet's uncharted World Wide Web announced plans to go public in mid-August. The deal would value at $463 million a company just 15 months old and losing money. No matter: Since the offering was announced, hundreds of potential investors have called Netscape's headquarters, clamoring for information and a piece of the action.

Mention the Internet in a room full of investors, and prepare to get trampled. Providers of Internet software and services are flooding Wall Street with public stock offerings. Stockholders, betting the Net will be as big a catalyst for new markets as the personal computer was, have bid up the shares to breathtaking levels. But as valuations rise, so do doubts. Says Michael Walsh, president of consultant Internet Info: "Some people are saying maybe the emperor has no clothes."

An early sign: Short-sellers are circling, betting prices will fall. From mid-May to mid-June, short-seller interest in NETCOM On-Line Communications Services Inc., an Internet access provider, rose 47%, to 1.3 million shares—15% of its 8.9 million. Some 22% of America Online Inc.'s shares are shorted. Says Michael Murphy, editor of the *Overpriced Stock Service* newsletter: "These things don't make any sense on a price-to-earnings or a price-to-sales basis."

FANNING THE FLAMES. Granted, even the shorts don't doubt the Internet's ultimate potential. The risk is that, with so many well-heeled companies vying for the same markets, few actually will grab the gold ring. Still, the money keeps pouring in: Venture-capital funding of Internet companies is expected to top $200 million this year, more than four times last year's $45 million, according to Venture One Corp., an investment-research firm. That's double the growth of biotechnology funding in the late 1980s. Says Venture One president David T. Gleba: "Venture investors are paying practically any price to get into the Internet."

M, MEET HN Q PUBLIC

ally, consumers will get e overdue attention

r years, IBM has been a consistently embarrassing dud with consumers. Yet Chairman Louis V. Gerstner Jr.'s and heart are lodged deep in con- r marketing. So it probably was just tter of time before the former Amer- Express Co. and RJR Nabisco Inc. utive made his move to shore up Blue's tarnished consumer image.

ter months of study, Gerstner has red Senior Vice-President G. Rich- Thoman—also an American Express RJR Nabisco alum—to create a new umer division that consolidates ex- g IBM businesses in home personal puters, CD-ROM software, and online ces, among others. The plan: Grab er control over IBM's far-flung con- r efforts, then use the new opera- to divine hot trends and pump out riety of products. Although still in embryonic stages, the operation is cted to be up and running within a months. Says Thoman: "We have ve an organization that focuses ex- vely on consumers," so that they nore than "the third or fourth pri- of a bunch of different divisions."

APTIVA: *Big Blue misjudged demand*

Gerstner knows Big Blue is way behind the consumer curve. Last year, IBM sold 700,000 home PCs while market leader Packard Bell moved more than 2 million, according to International Data Corp. IBM will sell just $65 million of consumer software this year—a fraction of Microsoft Corp.'s $300 million, says Link Resources Corp. In all, IBM's share of the $260 billion consumer market amounts to just $2 billion.

PRODIGY PLUG. To help build its putative consumer empire, Thoman has hired headhunters to search for a general manager with strong consumer marketing experience. He already has brought in David S. Hoyte, formerly executive vice-president of operations at Frigidaire Co., to run worldwide PC manufacturing. And last month, Thoman hired Michael Parides, a Compaq Computer Corp. marketing manager, as vice-president of consumer desktop marketing, a new slot.

What does IBM have to sell to consumers? First, there's the Aptiva home brand PC. The machine has been well received, but IBM badly misjudged demand last year, causing shortages and alienating retailers. A new line of Aptiva PCs is expected in August. Meanwhile, IBM's Prodigy online service, a joint venture with Sears, Roebuck & Co., could easily deliver additional entertainment and financial services. Other long-term possibilities: more education and entertainment software, printers, set-top TV boxes, and personal digital assistants.

The real boost, though, will have to come from new products not yet on the drawing board. IBM executives hope that a consumer-oriented unit will feed fresh ideas to the company's researchers, who will develop products that hit the next consumer trend at just the right time.

IBM's timing has left something to be desired. Too many times, analysts say, IBM disappointed by overhyping products, then overpricing them or not building enough. Says analyst Vadim Zlotnikov of Sanford C. Bernstein & Co.: "They have to prove that they have the ability to deliver that product at the right price." Consumers, in other words, will believe it when they see it.

By Ira Sager in New York

rs of proprietary online ser- fanning the flames. Fearful of scribers to the freewheeling have been paying dearly for d companies to expand their In March, for instance, Com- nc. paid a massive $100 mil- e times sales, for Spry Inc., a software outfit. America On- pent more than $100 million November to buy six Inter- d companies and products, in- 5 million for Advanced Net- work & Services Inc., an Internet service provider.

But Wall Street is the most frenzied participant of all. Since last December, at least a half-dozen companies have gone public, often quickly doubling their original asking price. Spyglass Inc., which licenses a Web browser, sold its shares at 17 on June 27, raising $28.5 million; by day's end, the stock had soared to 27, or 27 times the company's sales. UUNet went public at 14 on May 25, and closed July 5 at 28⅝.

Internet-related companies are flooding the market, trading well ir initial offering prices and at steep premiums to sales

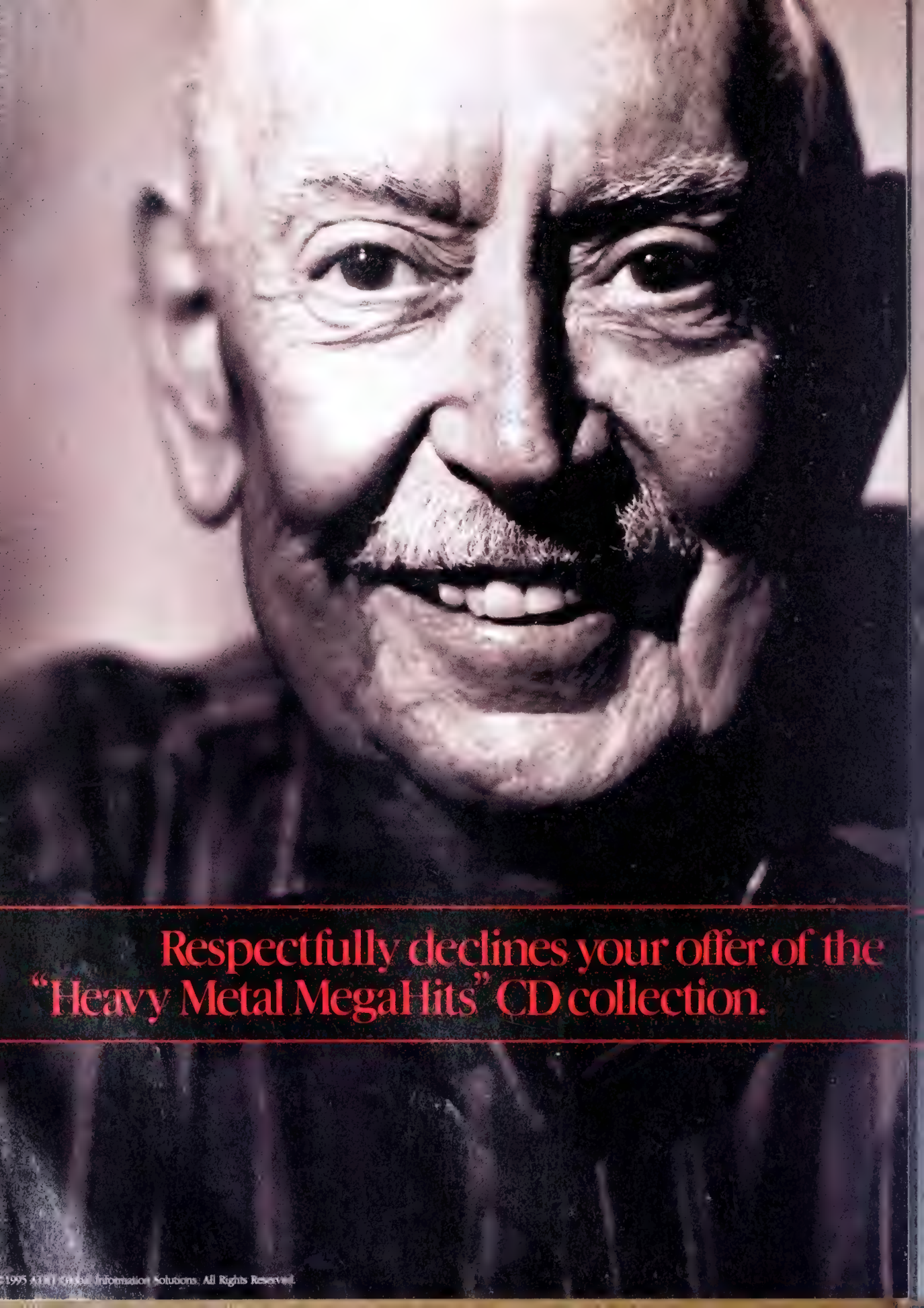
DATA: BLOOMBERG FINANCIAL MARKETS

None of this would be worrisome if profits were rolling in. But few companies have figured out how to make much money on the Internet. NETCOM, forced to keep expanding its network to attract new customers, lost $100,000 last year even as its sales soared 417%, to $12.4 million. Netscape, meanwhile, has attempted to seed the market for its $5,000 Internet server software by distributing millions of free Web browsers. It worked—Netscape's browser clearly has become the most popular—but now rivals are coming out of the woodwork.

Meanwhile, the Net is coming under increasing fire—from businesses worried about security breaches and from senators incensed by "indecent" material available to young Internauts. Such obstacles likely won't slow the Net's growth, but they could make Net stocks a "roller coaster," says Harvey Poppel, managing director with Broadview Associates Limited Partnership. Investors had better hold on tight.

By Robert D. Hof in San Francisco

DAVID STRICK/ONYX



EDITED BY KEITH H. HAMMONDS

MORRISON KNUDSEN DODGES A BULLET

IS MORRISON KNUDSEN THE big engine that could? For now, the giant engineering company will stay on track. Morrison, which lost $350 million on sales of $2.5 billion in 1994, persuaded key banks on June 30 to roll over $313 million of debt due by July 31 and to provide up to $30 million in new loans. Key to the deal is finalizing Morrison's transfer of its deeply troubled transit- car unit to its bonding company, Fidelity & Deposit. It also is likely to raise new cash by issuing shares—diluting existing shareholders but providing enough breathing room to soldier on. But it still needs better results and smart proceeds from sell-offs to avoid another brush with bankruptcy next year.

ROGUE TRADES ROCK COMMON FUND

ON JUNE 29, COMMON FUND discovered some $128 million in losses from unauthorized trading by money manager First Capital Strategists. On July 3, another shoe dropped: The University of Minnesota, one of 1,420 colleges and universities for which the Common Fund manages endowments, moved a cash-reserve account from Common Fund and stripped its $75 million stock-index account from First Capital. Common Fund shifted its First Capital business to Goldman Sachs.

SMITH CORONA TYPES IN 'CHAPTER 11'

YOU REMEMBER TYPEWRITERS —rollers, carriage returns, carbon copies. Hard to find these days. That's why Smith Corona, once a leading U. S. typewriter maker, filed for Chapter 11 on July 5. The move came just one working day after SC's board named turnaround firm R. F. Stengel its adviser. Bankruptcy protection should let SC access $20 million in new financing. The company has been trying to reassert itself as a low-cost maker of fax and other personal-business and small-office equipment.

A VICTORY FOR FORESTS—OR IS IT?

CHALK ONE UP FOR THE OWLS. In a landmark decision, the U. S. Supreme Court on June 29 upheld the government's right to regulate private land to protect endangered and threatened species. While environmentalists hailed the ruling, timber industry analysts say they don't expect a disruption of short-term supplies because companies can prepare habitat conservation plans to comply with the law. Yet some speculate that companies in the Northwest may step up clear-cutting of younger trees—before forests become prime habitat for threatened northern spotted owls—disrupting projections for long-term timber supplies. More important, the decision likely will help spur Congress to rewrite the Endangered Species Act later this year.

GEPHARDT WEIGHS IN ON TAX REFORM

HOUSE MINORITY LEADER Richard Gephardt (D-Mo.) has joined the flat-tax-reform bandwagon. His plan, to be made public on July 6, sets five rates, from 10% for couples earning $40,200 to 33.8% for those making more than $264,450. It would eliminate most deductions and credits, including those for state and local taxes, child care, and municipal bonds. Workers would pay tax on the value of employer-paid health insurance and company pension contributions. Capital gains would be taxed at ordinary rates. The big winner: Homeowners and the housing industry, since mortgage deductions would stay. Gephardt figures 75% of taxpayers would pay 10%.

HEADLINER: BENY ALAGEM

PACKARD PICKS A PARTNER

It's hard to be a world player when you're always running out of money. Just ask Beny Alagem, CEO of Packard Bell Electronics, the country's leading seller of personal computers. Packard Bell's revenues tripled, to nearly $3 billion, over the past two years. But its razor-thin margins aren't enough to underwrite that kind of breathtaking growth.

So the company's announcement on July 5 that it had raised almost $200 million in new capital came as no surprise. The surprise: Packard Bell will team with NEC, which dominates Japan's PC market with a 50% share, to expand into multimedia markets, including game systems, set-top boxes for TVs, and mobile computing devices. Says Alagem: "We would not have pursued NEC for the capital alone."

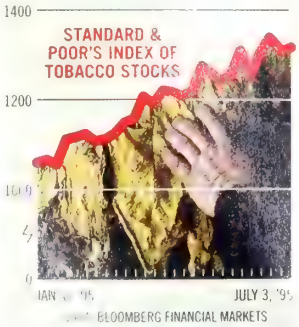
NEC will pay $170 million for a 20% stake in Packard Bell. France's Groupe Bull, which took a similar position for $40 million two years ago, will ante up an additional $27 million to maintain its 20% share. NEC also owns 3.7% of Bull and has agreed to raise its stake to 17%.

By Larry Armstrong

CLOSING BELL

TOBACCO EXHALES

Mixed news for cigarette makers fighting an escalating liability war. A Florida circuit court upheld tobacco's claim that the agency that launched the state's Medicaid-cost-recovery law was unconstitutionally chartered. It also limited recovery to costs incurred after the law's July 1, 1994, effectiveness date. But a Minnesota judge allowed plaintiffs' attorneys in other states to review industry documents produced in a suit brought by the state's attorney general.



ET CETERA . . .

- Managing director William McIntosh, a former fixed-income chief, quit Salomon.
- NationsBank will pay $518 million for CSF Holdings, expanding its Florida presence.
- Apple's Japanese chief quit, citing differences with superiors over strategy.
- One more sporting gesture: The National Basketball Assn. locked out players.

ED BY OWEN ULLMANN

HE GOP ASSAULT ON CONGRESS: S A SECOND WAVE COMING?

istory is any guide, the Democrats should win back ngress next year. Many of their 1994 defeats came narwly, and Democratic strategists are quick to point out landslide elections are almost always followed by "mide corrections."

why are Republican lawmakers returning from their town Fourth of July parades with smiles on their faces? ıse—history notwithstanding—early indications suggest 1996 could be the year when the GOP consolidates its ma- on Capitol Hill.

P strategists downright . They think can pick up nore House to pad their ent 232-202 . And they ve they're in of the 60 needed to e off any ocratic filibusn the Senate.

SEATS THAT MIGHT CHANGE HANDS: *Bradley (D), at risk; Gibbons (D), at risk; Pressler (R), at risk; Frost (D), at risk; Pryor (D), retiring*

consequences of a Republican sweep could be enormous: sh for a flat tax to replace the current income tax, new xs on social spending, a clearing away of environmentalction laws, and a further squeeze on lawsuit damage ds.

ready, the Democrats' political pyrotechnics are fizzling. ed by internal dissent, the party cannot come up with a ve agenda to counter the aggressive conservative pro- of House Speaker Newt Gingrich. "We've not shown s any reason to have confidence in us," frets Represen- Bob Filner (D-Calif.). "Everybody in leadership thinks going to be back in power in 1996, but I think that's ."

TY OF DOUGH. A clear message is only one key advanfor the Republicans. They also have plenty of dough to d the word, thanks in large part to huge donations business. "Financially, we're light-years ahead," gloats nal Republican Congressional Committee Chairman Bill n (R-N. Y.). "So I think [the Democrats are] going to run k into the wall of reality."

other big problem: Even if Dems reverse some of their losses in the Rust Belt and on the Coast, they face a mine field in Dixresident Clinton's massive unpopularnd the South's surging Republicanism prompted Senator Richard C. Shelf Alabama and two Southern conmen to switch to the GOP and perd David Pryor of Arkansas, Howell n of Alabama, and J. Bennett John- of Louisiana to retire.

is Southern discomfort has all but dashed Democratic hopes of recapturing the Senate. The additional defection of Senator Ben Nighthorse Campbell of Colorado means the party must gain five seats. With five Democrats and only one Republican—Colorado's Hank Brown—calling it quits, that's a clear edge for the GOP. Republicans won all nine open seats in 1994.

Led by National Republican Senatorial Committee Chairman Alfonse M. D'Amato of New York, the Republicans are aggressively targeting incumbent Democrats. Topping the list are Max S. Baucus of Montana and Bill Bradley of New Jersey, who barely held off a challenge from now-Governor Christine Todd Whitman in 1990.

By contrast, only one Republican is in trouble: Senate Commerce Committee Chairman Larry Pressler of South Dakota faces the race of his life against Democratic Representative Tim Johnson. But while Democrats would love to knock off arch-conservative Senators Strom Thurmond, 92, of South Carolina and Jesse Helms, 73, of North Carolina, they'll have an uphill battle on hostile political turf.

In the House, Democrats see more opportunities for a comeback. Polls show that most Americans dislike Gingrich and consider him too extreme. Moreover, Democrats have scored points by accusing the Republicans of gutting Medicare and giving tax cuts to the rich. Although President Clinton blunted the Democratic attack by unveiling a balanced-budget plan with both Medicare savings and tax cuts, the Dems still think their line is a big winner.

Conceivably, Democrats could win the 16 seats needed to oust Gingrich, since they lost 41 races by less than 10 percentage points last time. Still, many Democrats barely survived, and Democratic Congressional Campaign Committee Chairman Martin Frost of Texas concedes that as many as 50 Democratic seats remain in play. Among vulnerable incumbents targeted by the GOP: former Ways & Means Chairman Sam Gibbons of Florida, Democratic Caucus Chairman Vic Fazio of California, and Frost himself.

> "Leadership thinks we're going to be back in power in 1996, but I think that's crazy"

The Dems' best hope for winning back Congress, however, may lie with something they can't control: the economy. Polls show that voters would blame the Republican Congress for any economic downturn. The chance of recession doesn't seem like much for dispirited Hill Democrats to cling to, but at this point, a slump may be their only salvation.

By Richard S. Dunham

(L TO R) PHOTOGRAPHS BY GAMMA-LIAISON, RICHARD R. SOMMSABA; RAY WYMAN-SIGMA; RICHARD BLOOM-SABA; MARTIN S. MONASABA

INDIA

PASSAGE BACK TO INDIA

Expatriates seek a motherlode in the motherland

Raj Bagri started his career as a file clerk in a metals company in Calcutta. Thirty-six years after emigrating to Britain, Bagri is chairman of the London Metal Exchange and one of the country's 200 wealthiest people, with an estimated net worth of about $100 million. Bagri, also chairman of London-based Metdist Ltd., supplies India with 40% of its copper imports. In his latest venture, he plans to build a $600 million copper-smelting plant in western India in a joint venture with Mitsubishi Materials Corp. "I don't fly the ethnic flag, but I have an attachment to India," he says.

After years of building their fortunes elsewhere, Indian émigrés are returning to become major forces in their mother country. Called nonresident Indians, they have been enormously successful in the U.S., Britain, Hong Kong, Southeast Asia, South Africa, and the Persian Gulf. Many have amassed spectacular wealth. Although overseas Indians number only about 10 million, their combined annual income is roughly $340 billion. That's equivalent to the GDP of the entire Indian nation of 900 million, says Dubai-based Praveen Suri, Standard Chartered Bank's global head for nonresident Indian business.

MENDU: *The need for seed financing can now be met by money from abroad*

These Indians are starting to bring back not only money but technology, marketing knowhow, and financial expertise. Their return could emerge as a powerful tool in the reshaping of India's economy. "This will push India toward new economic heights," says Daniel M. Truchi, managing director-Asia for Crédit Lyonnais private banking.

Much of the credit for the phenomenon goes to Prime Minister P. V. Narasimha Rao. India's economy is growing by 5.5% a year, and Rao's liberalization policies have lured multinationals such as General Electric Co. and Unilever. The government has pushed hard to get overseas Indians to invest by opening once closed sectors to them and allowing them to repatriate funds more easily.

SAVVY DEALMAKERS. For New Delhi, the émigrés are especially important now that political jitters have given foreign investors second thoughts. Opposition Hindu parties that have swept into office in recent local elections have taken a hard line on foreign investment, including opposition to Enron's $2.9 billion power project in the state of Maharashtra. Local politicians, however, have fewer objections to investments from Indians living abroad.

To some degree, offshore Indians are following in the footsteps of overseas Chinese. Although their numbers are

Where the Overseas Indians Live

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lians abroad are by no means a olithic group. Many in Asia are rs who built empires from scratch. Middle East has been a magnet for collar Indians seeking jobs in con- ction and industry. The 1 million In- in the U.S. are generally profes- ls who received university degrees noved on to well-paying jobs. An- 1 million live in Britain, including iaspora's wealthiest families.

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Many U.S.-based Indians are also working to strengthen India's finance and technology industries. Raghuveer Mendu is the co-founder of a venture-capital firm, Dynam Venture East, that has raised $9 million for investment in industries such as information technology, health care, and engineering goods. Despite government restrictions in the past, "the entrepreneurial spirit was always there," says Mendu, a 37-year-old native of Hyderabad in southern India who now lives in Los Angeles. The recent economic reforms have unshackled that drive, he says, and created a demand for venture capital.

Veterans of Silicon Valley have also headed to India. One example is Anil Kapuria, a computer scientist and electrical engineer from New Delhi, who came to the U.S. in 1975 and worked for Northern Telecom and Tandem. In 1987, he founded Silicon Valley Technology, now the second-largest exporter of computer hardware products out of India, selling motherboards, memory boards, and other add-on products to companies such as Compaq Computer.

AUTOMATIC APPROVAL. The track record of émigrés overall is impressive. In the U.S., the average Indian American's income is $48,000, higher than that of any other foreign-born group. Indians own 40% of the motels in the U.S., and 20,000 are doctors. In Hong Kong, where Indians make up 0.5% of the population, they account for nearly 10% of the territory's external trade. Collectively, overseas Indians save $50 billion a year and own $100 billion in real estate. As a group, they are the third-largest investors in India, led only by the U.S. and Britain (charts, page 46).

Aside from money, they are taking ideas home. In 1993, Soumitra Shankar Das returned to India and was struck by its disorganized retail system. So he created Dee's Home Shopping Network, where TV hostesses offer Indian consumers household goods. Other returning Indians have introduced the concept of executive searches and sophisticated TV programming.

In general, Indians from abroad are a potent lobby for change, prodding officials at every opportunity to liberalize faster. Responding to that pressure, the government is opening sectors exclusively to its overseas progeny. Nonresi dent Indians, for example, get automa ic approval for most wholly owr ventures, while foreign companies only hold a 51% stake. Some 5% tc of initial public offerings are re for overseas Indians, who can a

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COGENTRIX' SINGH: *"My role is to provide a cultural interpretation"*

PHOTOGRAPH BY DIEW MA

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property, while foreigners cannot invest in anything other than their own offices or homes.

Like overseas Chinese, Indians have established networks based on shared religions or ethnicity. For instance, Sindhis who lived in what became Pakistan lost almost everything they owned in the 1947 partition of the subcontinent. Over time, they built businesses in the Middle East, Africa, and Asia. Their informal financial network, where goods are traded on credit and trust, allows them to bypass commercial banks.

DRASTIC DELAYS. The Sindhis are spearheading an investment drive into India, led by the prominent London-based Hinduja family. They have created a Mauritius-based holding company called IndusInd International Holdings Ltd. (IIHL). Some 3,000 Sindhis from all over the world pitched in $50 million, with the Hindujas alone contributing 3%. The group includes IndusInd Bank, the first private bank to be formed since liberalization. Founded in April, 1994, it has $225 million in deposits, a little more than half of which comes from émigrés. IIHL also runs a $161 million print-and-electronic-media project called IndusInd Media & Communications Ltd., which will launch a cable network, produce TV programs, and acquire Indian movies.

The Hindujas have encountered their fair share of problems. Since their ventures tend to threaten the monopolies of domestic industrialists, the group still comes up against hurdles that have caused delays of up to three years. "There's still resistance from Indian businessmen to offshore Indians," says Sanjay G. Hinduja, group vice-president.

Despite points of friction, the Indian émigrés are sometimes able to bridge the gap between India and foreign investors. "I see our role as a conduit," says M. Chamaria, chairman of $500 million Agio Group, a trading firm with investments in energy, infrastructure, and real estate. His company is lining up $600 million worth of projects in India, including a $100 million venture with St. Louis-based Protein Technologies International to produce soy protein.

Another impressive investment comes from Singapore, where Parameswara Holdings has launched a $19 million fund for Singapore investors to break into India. It also has a 10% stake of Singapore investments in the $250 million Bangalore Information Technology Park, a government-led Singapore project. "The nonresident Indian label, the brand, gives you a quicker avenue to doing things in India," says Shabbir Hassanbhai, director of Parameswara.

But no offshore Indian expects it to be easy. Infrastructure is antiquated, power outages are common, and roads are primitive. Corruption is rampant. Executives complain of shakedowns for such basic services as a telephone line. K. Sital, a top Indian business leader in Hong Kong, says it took him months to get a license to open a watch factory near Bombay—and even then, he had to grease some palms. Once he started producing, it took three weeks for his components to get through customs. "Nothing gets out for free," he complains. "You have to pay." Eventually, he shut the plant down. Now, he prefers to make his Indian investments together with other exiles: He is the largest individual shareholder in IndusInd Bank.

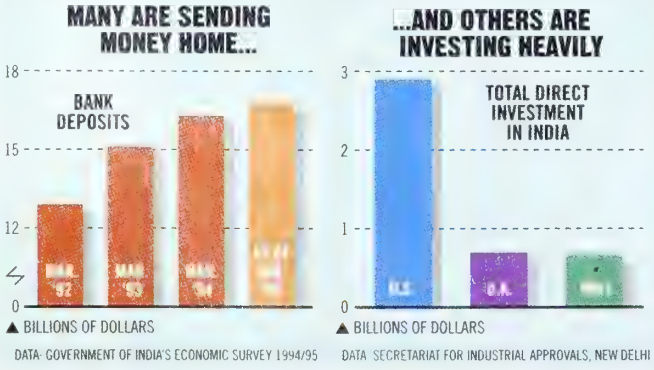
DAS: *His TV hostesses sell $6,500 worth of goods a day*

Yet for every frustrated overseas Indian, there are countless others charging in. Their infusion of sorely needed capital will speed development in everything from telecommunications to shipping. Moreover, they're providing new consumer services for the country's growing middle class. If India takes maximum advantage of its overseas Indian resources, it could forge ties that will boost the country's ability to become a regional, even a global, player.

To accomplish that, Indian government leaders will have to show their continued commitment to reform and liberalization. But many Indians abroad agree that their country is finally on the right path after decades of stagnation. "We feel the time is right for India to take off," says Lal Hardasani, chairman of the Indian Chamber of Commerce in Hong Kong. Having endured untold hardships overseas on their way to building vast personal fortunes, business leaders of the Indian diaspora aren't about to miss out on the opportunities back home.

By Joyce Barnathan in Hong Kong, with Sharon Moshavi in New Delhi, Heidi Dawley in London, Sunita Wadekar Bhargava in New York, and Helen Chang in Singapore

India's Emigrés Fuel Its Economy



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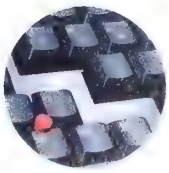
IBM Solution #89362-K  **a.k.a. "Full-size Keyboard"**

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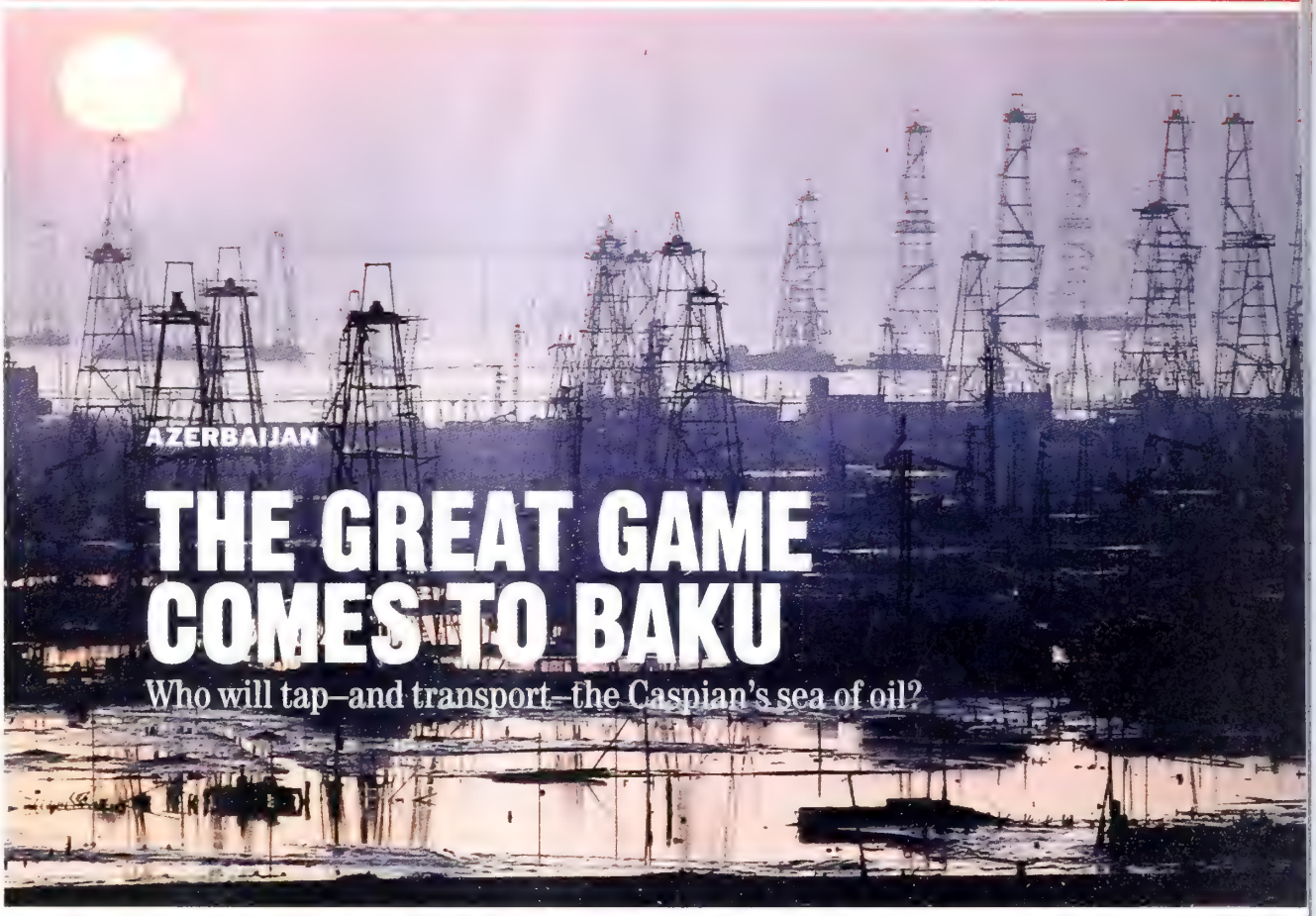

AZERBAIJAN

THE GREAT GAME COMES TO BAKU

Who will tap–and transport–the Caspian's sea of oil?

Oil and the venerable Caucasian town of Baku have had a long and profitable association. In 1900, Baku, then a Russian outpost, was a cradle of the fledgling oil industry on a par with Oil City, Pa., and East Texas. At about that time, Russian writer Maxim Gorky described booming Baku's clutter of wooden derricks and huts as "a dark hell painted by an artist of genius."

Now Baku, the capital of independent Azerbaijan, is poised to open a dramatic new chapter. Foreign companies are ready to plunk down tens of billions of dollars to help open the Caspian's riches. Baku, a city of 1.5 million with an old world, Middle Eastern flavor, would be the major staging area. Azerbaijan and neighbors Kazakhstan and Turkmenistan could have well over 100 billion barrels of oil, making them comparable to Iraq or Kuwait and potentially bigger than Alaska's Prudhoe Bay or the North Sea. "We think the potential of the whole region is between 100 billion and 200 billion barrels. That is why there's such enormous interest by the industry," says Thomas M. Hamilton, president of Pennzoil Exploration & Production Co., which is in on two big Caspian projects.

Leading the pack in Azerbaijan is a 12-member consortium that is headed by British Petroleum Co. and Amoco. Pennzoil, Exxon, the Russian giant Lukoil, and Socar, the Azeri national oil company, are also partners in the Azerbaijan Independent Operating Co. (AIOC).

The first flows will be modest, about 80,000 barrels a day, but the plan is to increase them to 700,000 barrels a day. As the deal is structured, Azerbaijan will keep 80% of the revenues, meaning the nation of 8 million will receive an incredible windfall of about $80 billion over the 30-year life of the project.

BIG PLAYERS. But before the Azeris back into high gear again, there are huge uncertainties to overcome. The big drawback about the Caspian is that it is landlocked. Proposed pipeline routes go through unstable Georgia, devastated Chechnya, or Armenia, which has been at war with Azerbaijan since 1988.

What's more, all the region's big players—Iran, Turkey, and especially Russia—want to influence the Caspian republics and would like a slice of the oil revenues. Often through oil companies but sometimes by other means, the competing powers are playing out a latter-day version of the 19th century Great Game, in which Britain and Czarist Russia fought and intrigued for influence in this area.

CHERNOMYRDIN, AN OLD ENERGY HAND, WILL PUSH RUSSIA'S CLAIMS IN AZERBAIJAN HARD

Moscow has been putting the screws to Azerbaijan by covertly supporting the Armenian side in the war over the breakaway enclave of Nagorno Karabakh. "The Russians want to keep Azerbaijan in the Russian fold. There will be no exports from that region without the Russians sanctioning them," says Julia Nánay, an analyst at Petroleum Finance Co.

A new factor in Russia is the ascendancy of Prime Minister Viktor S. Chernomyrdin, a former gas industry chief who is a master at the international energy game. Chernomyrdin has been pushing long-stalled foreign oil projects in Russia. Exxon and Japan's Sodeco in late June signed a $12.7 billion contract for a monster oil and gas project on

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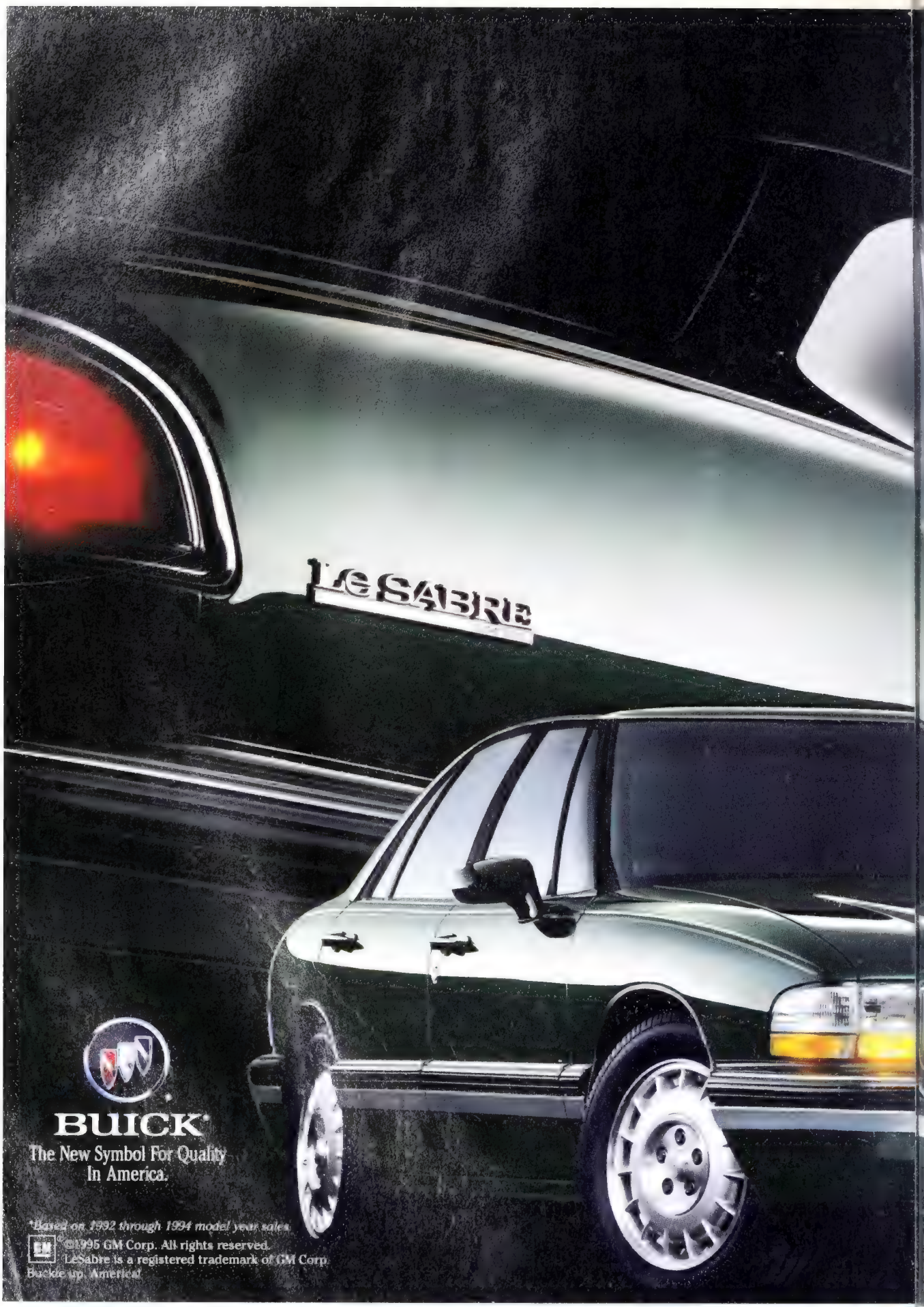
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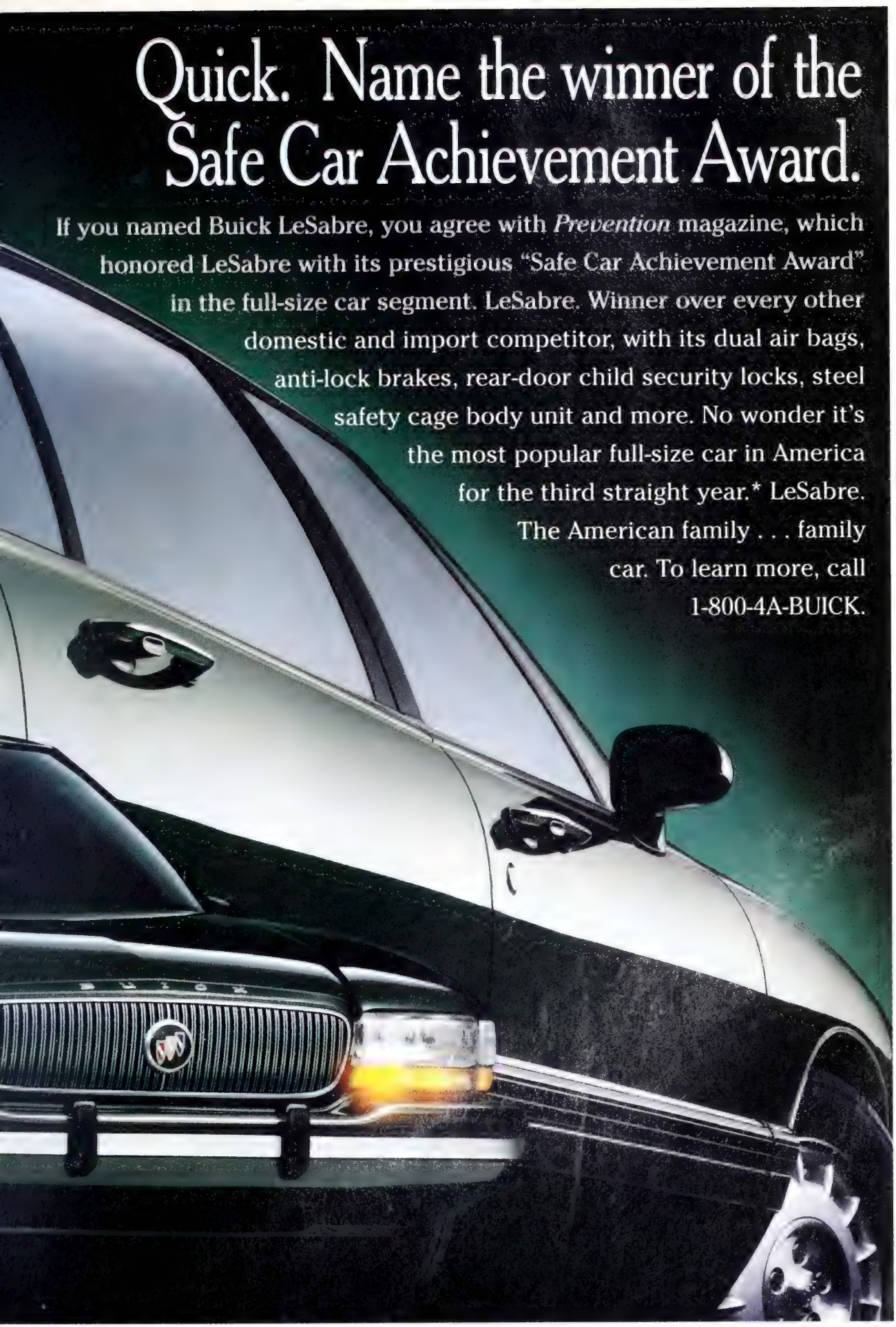


Sakhalin island in Russia's Far East.

The Western oil companies and the Azeris feel Chernomyrdin is a reasonable man with whom they can do business. They have cut Lukoil, which is close to Chernomyrdin, in on 10% of the AIOC and 34% of another project with Pennzoil. The thinking is that if Chernomyrdin and his oil and gas crowd prevail in the battles now raging in the Kremlin, a way will be found to get the oil out. If hard-liners regain the upper hand in Russia, all bets are off. Chernomyrdin's camp recently won a big victory when they defeated a no-confidence vote in Parliament and Yeltsin ousted several hard-liners.

PIPELINE PROBLEM. One of the optimists is Natik A. Aliyev, head of the Azeri company Socar. He holds court in a waterfront mansion on the Caspian—once owned by a pre-Soviet oil millionaire. Aliyev thinks the consortium could begin pumping about 80,000 barrels a day of "early oil" by late 1996. "The point of early oil is to show that the consortium works," Aliyev says.

By September, the consortium will choose a route for early oil that won't require new pipelines. The big decision comes later: the selection of a new pipeline that could cost $1.5 billion and handle a much larger volume. That choice means everything to the success of the AIOC project, others like it, and the political and economic future of Azerbaijan.

The AIOC doesn't want to get into a mess similar to the Chevron Corp. ordeal in Kazakhstan. Various political and financial battles have kept Chevron from finding an export route for the oil from its $20 billion Kazakh project.

Moscow wants the Azeri pipeline to terminate at its Black Sea port of Novorossiysk, with oil being shipped through Turkey's Bosporus Straits. But Turkey balks at a plan that would deprive it of transport revenues and expose Istanbul to the risks of tanker spills and explosions in the narrow Bosporus. The Turks are stumping for a terminus at their southern port of Ceyhan.

> "You're going to have at least 1 million barrels a day of oil coming out of [there] before long"

The pipeline game is drawing in some of the world's most brazen entrepreneurs. One is Roger Tamraz, a Cairo-born U.S. citizen who is a veteran oil wheeler-dealer. Tamraz, head of New York-based Oil Capital Inc., on June 6 announced a new plan to build a large, $2 billion pipeline through Armenia. Says Tamraz: "The fact of the matter is that you need several pipelines. You're going to have at least 1 million barrels a day of oil coming out of the region before long, and there's no way all that oil can go through the Bosporus."

LOST WEAPON. Washington is also being drawn in. Under pressure from such oil heavyweights as Amoco, Mobil, Exxon, McDermott, Brown & Root, Bechtel, and Chevron, the Clinton Administration is increasingly being pushed to alter its pro-Russia policy and start backing the republics. But Washington may have thrown away a valuable weapon against Russia when it launched a campaign against Iran this spring. The companies could have pressured Russia by negotiating for a route through Iran or by swapping their oil with the Iranians for oil at the Iranian export terminals on the Persian Gulf. But by forcing the Azeri consortium to rescind the 5% share it had given the Iranians, and by ruling out a pipeline route that would go through Iran, the White House drove the one regional power with resources to match Russia's a bit closer to the Kremlin.

That's why the outcome of the battles in the Kremlin is being watched so closely in Baku and elsewhere. The key to the future of this potentially huge energy source probably lies there.

By Peter Gaiuszka in Baku, with John Rossant in Rome, Gary McWilliams in Houston, Russell Mitchell in San Francisco, and Stanley Reed in New York

GASPIAN PIPELINES

Companies and countries are fighting for the enormous energy riches of the troubled region. But wars and geopolitics are holding the projects up.

TED BY STANLEY REED

N CHINA'S SHADOW PLAY, HE MAN TO WATCH MAY BE ZHU

When China's banks went on a wild lending spree two years ago, jeopardizing the whole financial system, economic czar Zhu Rongji came to the rescue. A tough ager, Zhu took over as governor of the People's Bank of na (PBOC), where he tightened credit and forced the banks lean up their acts. Despite howls from China's many lit junkies, including money-losing state enterprises and spending provincial leaders, Zhu stuck to his guns. His ef- paid off. Things cooled down, and China's bankers became e professional.

ow, Zhu is stepping down as the bank's gov- or. But he's by no means out. If anything, tenure at the People's Bank has enhanced stature in the power structure. While other leaders have kept their heads down during shaky transition period, Zhu has established self as the one Politburo member willing to risks and get things done. He also used his re at the bank to put together a crack team ophisticated young advisers. "I'm impressed that whole gang," says Diane Yowell, di- or of Hong Kong Bank China Services Ltd. ey are putting China on a more stable, ration- conomic path."

NG THE MANDARINS. Zhu's major achieve- t has been engineering a soft landing for the overheated Chinese economy. His controls e cooled economic growth down to an 11% pace from two years ago and dropped inflation to the 20% level nearly 30%. Signs are that the numbers will continue to dually ease, barring natural disasters. "He has managed economy remarkably well," says Shan Li, executive direc- and China economist at Goldman Sachs Ltd. in Hong g.

y stepping down now, Zhu may be making an astute po- al move. While other top Chinese leaders have been con- dating power and making key alliances in preparation for Deng Xiaoping's succession, Zhu has been absorbed in dealing with economic crises. Although that has boosted his standing among ordinary folk in China, it hasn't done much to gain him a constituency among the mandarins. Moreover, the role of a disciplined central banker is a job that tends to make more enemies than friends. "The central bank isn't the path to success in any country," says a Western diplomat in Beijing.

ZHU: *Astute maneuver?*

"I'D BE AMAZED." No one believes Zhu is angling to challenge President Jiang Zemin for China's top post. But some speculate that he may be eager to become Premier when Li Peng steps down in 1998, after completing the maximum two terms in office.

Others, however, think Zhu will remain preoccupied with the economy. He still faces the task of dealing with the money-losing state enterprises and boosting flagging agricultural production. Zhu retains overall responsibility for economic management as well as oversight of the banking and securities industries. "In any other economy, I'd be amazed to find a person who does all those things," says Geoff Lewis, regional economist for Smith New Court Securities Ltd. in Hong Kong.

Zhu, 67, will continue to exercise plenty of influence over monetary policy through his successor, Dai Xianglong, 50, a Zhu protégé with long experience in both public and private banking. Chinese economists say Zhu relied on advice from the younger Dai when Zhu was Shanghai's mayor in the late 1980s. Zhu is said to have brought Dai to the People's Bank five days after he became governor. Dai has been a vice-governor of the central bank.

With such key portfolios already in hand, Zhu may not see any need to take the risk of battling for higher titles. He already has the commanding role in charting China's economic future.

By Joyce Barnathan in Hong Kong, with Dexter Roberts in Beijing

GLOBAL WRAPUP

ACKING THE RUBLE

For the first time since it allowed e ruble to float in 1992, Russia is edging to support the much bat- red currency. The government says will keep the ruble in a band of 300 to 4,900 to the dollar until Oct.1. e currency now trades for about 500 rubles per dollar.

The aim is to chill speculation and ost investor confidence. The ruble s been strengthening since bottom- g out at 5,130 in May. Inflation has len from 17.8% per month in January to 6.7% in June. The government also has amassed a $10 billion war chest to back the currency.

But the real test of the new ruble policy will come in October, when the government commitment expires. Inflation traditionally soars in Russia in the fall, when Moscow spends millions of dollars on credits to farmers and miners. "Come October, if inflation is not below 5% a month, then the ruble will depreciate again," says Christopher Wood, investment strategist for emerging markets at Morgan Grenfell & Co. in London.

VENEZUELA OPENS OIL

▶ Twenty years after nationalizing foreign oil companies' operations, Venezuela is now trying to woo them back. In a major breakthrough, Congress has approved profit-sharing joint ventures with state oil company PDVSA. The company claims that as many as 23 billion barrels could be discovered and as much as $11 billion in investment attracted. This new setup will put pressure on the Persian Gulf countries, which have resisted profit-sharing deals with foreign companies.

AGENCE CHINE NOUVELLE/SIPA

Cover Story

THE WAGE SQUEEZE

Productivity and profits are up a lot. Paychecks aren't. Is the economy changing?

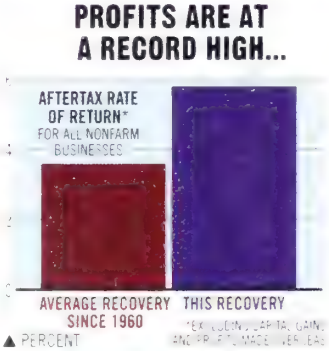
Since the early 1980s, Briggs & Stratton Corp. has employed a host of tactics to fend off Japanese and other rivals. The company, which makes small engines for lawn mowers, wrung concessions from union workers, laid off white-collar ones, built a plant in Mexico, and sank millions into new automated equipment. The strategy worked. B&S turned a record profit in 1994 and is running 31% ahead this year. And the falling dollar has dampened any competitive threat.

Still, the flush times haven't stopped CEO Fredrick P. Stratton Jr. from making one of the most dramatic moves since his grandfather founded the Milwaukee company in 1909. Last year, he announced that B&S would shift 2,000 of its 5,500 jobs to Kentucky and Missouri. The reason: He can pay half the $21-an-hour his workers up North get in wages and

Weak Wage Growth Is Sapping Demand

Four years into a recovery, companies are flourishing and joblessness is low. Yet pay is inching up more slowly than in the prior four recoveries.

All figures are average annual increases



DATA: ECONOMIC POLICY INSTITUTE, BUREAU OF LABOR STATISTICS, BUREAU OF ECONOMIC ANALYSIS

"How far can this go before they ruin everything?"

GLORIA ZAJACKOWSKI OF MILWAUKEE IS ONE OF 2,000 LAID OFF WHEN BRIGGS & STRATTON SHIFTED JOBS TO STATES WHERE IT CAN PAY HALF WHAT IT DOES IN THE NORTH

benefits. Stratton says he has to worry about future profits. That's cold comfort to Gloria Zajackowski, 48, a 17-year veteran who was laid off in June. Fearing she may never earn so much again, the Zajackowskis have pared their spending. They won't buy their 17-year-old daughter a car and had two kids fix the garage door rather than shell out $525 for a new one. Zajackowski is bitter about Corporate America's cutbacks: "How far can this go before they ruin everything?"

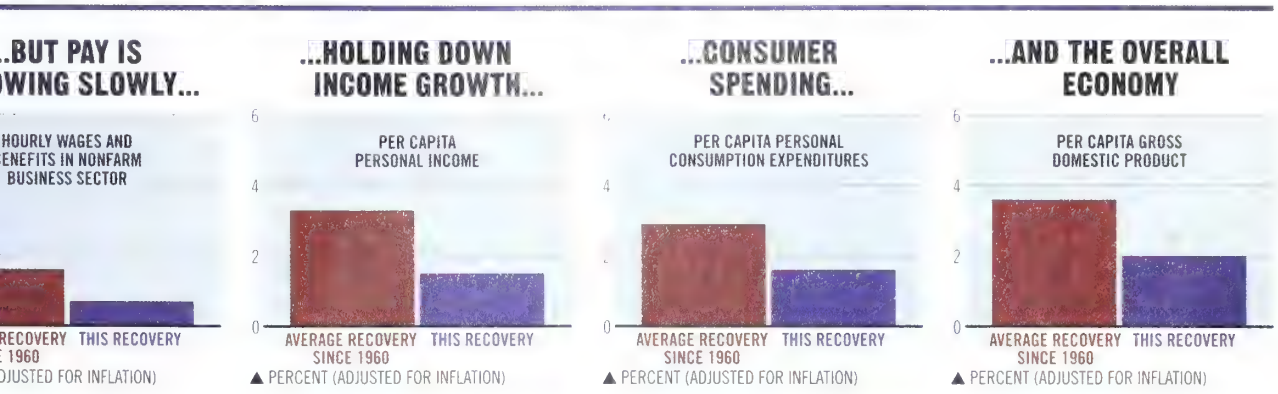
Stratton's move exemplifies the hard-nosed cost-cutting philosophy that has spread through executive suites in the 1990s. Four years into a recovery, profits are at a 45-year high, unemployment remains relatively low, and the weak dollar has put foreign rivals on the defensive. Yet U. S. companies continue to drive down costs as if the economy still were in a tailspin. Many are tearing up pay systems and job structures, replacing them with new ones that slice wage rates, slash raises, and subcontract work to lower-paying suppliers (page 60).

The result seems to defy the law of supply and demand: While companies prosper, inflation-adjusted wages and benefits are climbing at less than half the pace of previous expansions (charts). Indeed, one Labor Dept. survey released on June 22 shows real employee compensation actually sliding in recent years.

EMPTY WALLETS. Of course, pay stagnated in the 1980s, too, largely because of slow productivity growth and stiff foreign competition. In that decade, however, most college-educated employees pulled ahead even though the other 80% of workers lost ground. And the share of national income going to labor changed little. Yet today, even the incomes of many white-collar employees are sliding. And labor's share has slumped to levels last seen 30 years ago—despite substantial productivity growth.

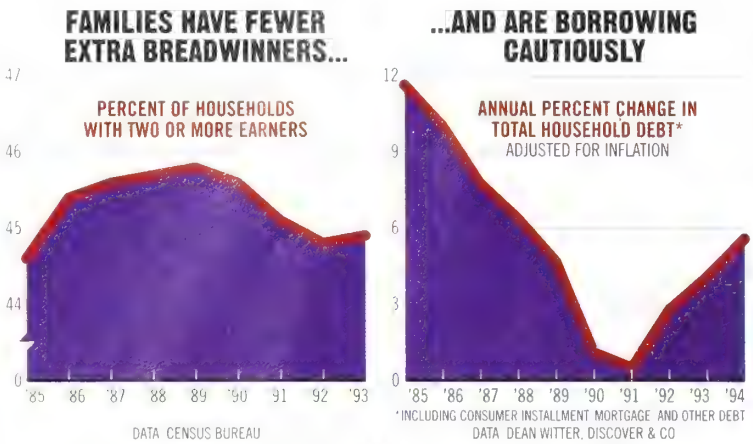
These trends have been dragging down the economy throughout the recovery. With inflation-adjusted incomes advancing at half the pace of prior upturns, the Zajackowskis of the world have cut back on everything from autos to airline tickets. Growth in consumer spending is chugging along at half the rate of the spend-happy 1980s. And since consumers comprise two-thirds of gross national product, per capita GDP growth is running way below its historical trend. "This is the weakest consumption cycle of the postwar period, which is largely a reflection of the wage slowdown," says Joseph G. Carson, chief economist at Dean Witter, Discover & Co.

Many experts argue that this is just what the doctor or-



dered. After years of consuming more than we produce, borrowing heavily to maintain our shopping habits, and ratcheting up a huge trade deficit, these critics see today's timid consumer as a welcome development. And if companies are using their newfound profits to fuel a capital spending boom rather than pay artificially high wages to a workforce that views itself as entitled, what better way to keep the U.S. competitive in a cutthroat global economy? Sure, companies have laid off millions in endless rounds of restructuring, and certainly many people have suffered the unhappy consequences of lower wages. But thanks to those stiff measures, productivity has climbed at a healthy 2% annual rate since 1991, and exports are booming. Corporate America is once again in fighting trim, able to compete with the best of the world's producers.

Consumers' Options Are Shrinking



UNNERVING QUESTION. Economic theory would suggest that the payoff for all of this good behavior is just around the corner. Already, shareholders are enjoying a juicy stream of dividend payments and capital gains. Historically, efficiency improvements have led to real wage and income gains for the average employee. "In the long run, labor productivity will rise, and eventually, this will put upward pressure on wages," says former Federal Reserve Board Governor Wayne D. Angell.

But how long must we wait for productivity gains to boost living standards? At this point in previous business cycles, gains from increased efficiencies would already have started to wind their way through the economy. But after closely tracking each other for decades, wage gains now are lagging behind productivity growth.

The unnerving question that is starting to creep into the discussion: Are we simply in the midst of an especially long and wrenching transition, or have structural changes in the economy severed the link between productivity improvements and income growth?

Why would it be any different this time around? Of course, companies always try to restrain labor costs to maximize profits. But when unemployment falls, they're usually forced to raise wages to attract and retain employees. That's not happening this time, thanks to sweeping changes in the U.S. economy that may be permanently altering the landscape.

For one thing, because of the pressures of a global marketplace, even companies making sophisticated, high-end products find they are competing against—and have access to—pools of cheaper labor in other parts of the globe. Where only factory workers used to worry about being displaced by cheaper Mexican or Malaysian workers, foreign job competition now haunts everyone from engineers to software programmers.

Technological change is doing its part to hold down pay as well. Twenty years after computers began infiltrating the workplace, efficiency gains are finally starting to be realized, reducing the need for live human beings to perform millions of repetitive tasks. Also holding down wages is the decline of a robust, unionized workforce that used to prod tightfisted employers into sharing more of the spoils. At 15.5% of the workforce, vs. 26% in 1977, organized labor exerts little upward influence anymore on overall pay levels. To top it off, the defense sector—long a crucial underpinning of the economy—continues to undergo a massive downsizing.

For all of these reasons, U.S. companies now dominate the labor market to an unprecedented degree. Indeed, it's possible that the U.S. could be shifting from a consumer economy to a producer-oriented one, not unlike that of Japan. For 40 years, the Japanese have fueled their export juggernaut by keeping consumer prices high and funneling cheap capital to producers. In the U.S. version, employers' upper hand allows them to keep the prices of consumer goods growing at a faster rate than the wages of those who produce the goods.

Since 1983, the prices producers charge consumers have escalated by 4% a year, according to Brookings Institution economist Barry Bosworth. But the prices for inputs—two-thirds of which are labor—have risen by only 3.3% a year. And because many new pay systems delink wages from the consumer price index, consumer purchasing power may be dampened for years. "The terms of trade will still go heavily against labor in the next 5 to 10 years," predicts Bosworth.

Even if the shift proves to be less fundamental, there's no question that total compensation is faring poorly. One of the best measures, the BLS Employment Cost Index, shows wages and

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IN 1988, ROBERT HEATH'S 17 YEARS' EXPERIENCE EARNED HIM $43 AN HOUR. BY 1994, BIG BLUE'S CONTRACTOR PAID $28

fits for 90 million private-sector employees averaging 0 an hour in March of this year, 2.8% lower after inflation in 1990 and 5.5% lower than when the index began in . While other surveys indicate slight gains, all show em- ees trailing badly compared with previous recoveries. rall pay and benefits on the standard BLS hourly wage ey have outpaced inflation by a mere 0.67% a year since recession ended in early 1991 vs. an average of 1.6% a in the prior four recoveries.

NWARD SPIRAL? The risk for Corporate America in all lies in the prospect of chronically weak demand. As ear- 1993, executives such as Procter & Gamble Co. CEO Ed- L. Artzt, who retired on July 1, saw that anemic income rth meant tightfisted consumers even in a recovery. They led that the value-oriented marketing and pricing strat- s devised in the downturn had to be permanent. Others, as some Detroit auto makers, worry that the average ly can't afford their products anymore. The average price car has jumped more than 70% in the past decade, e incomes have climbed only 40%. One result is a boom- market for used cars.

ne danger is that a downward spiral may develop. Value- gry shoppers are prompting individual companies to hold n prices by whacking labor costs. But most consumers are wage-earners. When all companies slice pay, they under- consumer buying power and further exacerbate price petition—just the opposite of the old Henry Ford strate- f paying workers well so they could buy his cars. In the companies are finding new ways to keep a lid on compen- on costs. By 1993, 74% of large employers had begun to antle traditional pay systems that dole out annual merit es to most employees, according to a survey of 300 large panies by the Association for Quality & Participation, a innati-based professional group. "The contract with em-

> "If my 14-month-old daughter gets sick, I have to take off with no pay or let my husband miss work"
>
> **AFTER LOSING HER FULL-TIME BOOKKEEPING JOB, TABITHA SILVA COULD ONLY FIND WORK AS AN ACCOUNTING TEMP—WITH NO BENEFITS**

ployees in America is changing," says John F. Hillins, vice-president of compensation for Honeywell Inc., which is overhauling its pay systems. "The old reward system that says you get a raise because you've been here a year sends the wrong message. Today, it's performance and behavior that count."

Many companies are installing schemes that tie part of wages to corporate performance. But because profits aren't always the only yardstick, pay doesn't necessarily track earnings. What's more, companies often clip pay scales in the new plans.

Last year, for instance, Mobil Corp. decided to compare pay with compensation at a mix of large companies instead of the oil industry. The upshot: The top 50% of its 30,000 U. S. employees—everyone up to the highest 600 executives—is overpaid by 5% to 7%. The bottom half, mostly clerical and other support staff, is even more over market. Mobil plans to lay off most of this latter group and subcontract the work to lower-paying outside companies.

Mobil has a new pay system starting this month for those who remain. The company granted only a 2% average merit raise in 1994 and none this year. Instead, it will dole out one-time payments equal to 3.5% of pay. It also froze all salaries to let the market catch up, despite $1.7 billion in profits last

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confident mountain ascent. With the powerful V6 in its class,* anti-lock es, and the strength to pull a two- trailer or a 24-foot sailboat, ero is equipped for any adventure.† From its list of international off-road racing victories, to the option of adding leather, wood trim, and a six-disc CD, this is a supremely capable luxury car. Starting at just $27,625.**

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year—among the oil industry's best results. "Our pay is treading water as the market moves north to meet us," says Mobil's vice-president of administration, Rex D. Adams.

Other companies are focusing on local markets. On Apr. 1, Pacific Telesis set up three pilot programs that will cover all 13,000 of its nonunion managers and salaried workers by 1996. The San Francisco company is using mostly local surveys to make new pay comparisons. Anyone under the newly defined market wage gets a raise, while anyone over will have their salary frozen, though they may get one-time bonuses. All new hires will come in at the new levels. The surveys aren't all done yet, but so far, the pay cuts are larger than the pay increases.

Cover Story

Employers also are holding down payroll costs by using part-timers and temporaries—more of whom are white-collar. Employment in the temporary-help industry has soared nearly 50% since 1990, to 2.25 million last year. And the professional end is growing rapidly, according to a study by Robert W. Baird & Co., a Milwaukee-based brokerage. For instance, Robert Half International Inc., a temporary-help supplier, has doubled the number of accountants it places since 1992, to 85,000 last year. They earn $35,000 to $40,000 a year, 10% to 20% less than full-timers and often get no health care or other benefits. And most don't work year-round.

Take Tabitha M. Silva. After losing her job as a bookkeeper in May, the 21-year-old resident of Stirling, Va., sent out 10 to 15 résumés a week for two months. Finding nothing, Silva went to Accountants on Call, a temporary-help agency. It landed her a job paying $9 an hour—18% less than her old one and about 25% below the full-timer she replaced. "There are absolutely no benefits, so if my 14-month-old daughter gets sick, I have to take off with no pay or let my husband miss work," says Silva.

DOWN AND OUT. Employers are squeezing contract workers as well. Because they're self-employed or work for subcontractors, these employees often have even less leverage than regular staffers. Just ask Robert Heath, a programmer with 17 years' experience who held two- to six-month contract jobs with IBM in Boca Raton, Fla., from 1988 through 1994.

Initially, Heath earned $43 an hour, plus time-and-a-half for overtime. In 1992, IBM subcontractors began offering as little as $30 an hour. Heath often refused contracts, working only 1[illegible] months from 1992 to mid-1994. When Big Blue's contractors offered him $28 an hour, Heath gave up and moved to Houston. "IBM hired programmers from India on special visas who will work for less," says Heath. "My guess is that they're up to one-half of the 500 or so contract programmers in the Boca facility." IBM says it doesn't tell its contractors how much to pay.

The pay of college-educated men such as Heath outpaced inflation in the 1980s. But it fell in the recent recession and

OUTSOURCED—AND OUT OF LUCK

Next time you're in the Oakland airport, look closely at the ticket agents behind the American Airlines counter. They may seem like other American Airlines staffers. They direct you to American flights and wear the same dark-blue uniforms. But there's a difference: Nowhere on the uniforms will you see the small AA emblem with the trademark wings. That's because they're not American employees, who were terminated in May.

The agents in Oakland, Calif. are newly hired employees of Johnson Controls Inc., which has a contract for the ticketing jobs. As part of a cost-cutting effort, AMR Corp.'s American Airlines Inc. decided last year to allow outsiders to work in its operations at 28 second-tier airports. The reason: American pays its veteran agents up to $19 an hour, plus benefits. The 550 jobs farmed out to Johnson and other contractors pay $7 to $9 an hour and often offer inferior benefits such as costly health insurance.

LABOR SHIFTS. American is part of the ongoing movement by large companies to shift work to suppliers and contractors. While outsourcing started in manufacturing in the early 1980s, it has expanded through virtually every industry as companies rush to shed staffs in everything from human resources to computer systems. No one tracks the total amount of outsourcing. But in computer operations alone, outsourcing sales have more than doubled since 1989, to $41 billion last year, according to Dataquest Inc. Employment in business services—companies that supply services to other companies—has doubled in the past decade, to 6.2 million jobs in 1994 (chart).

While outsourcing often helps companies slash costs, the broader economic implications are less clear-cut. It can be good for the companies involved and for the economy as a whole when the contractor really is more efficient. For instance, Detroit-based MCN Corp.'s data processing unit uses economies of scale from its seven mainframes to more [illegible]ciently serve 25 companies, includi[illegible] Ford Motor Co. Because MCN empl[illegible] fewer people to process Ford's aut[illegible]nancing applications than Ford did. [illegible] resulting productivity gains should [illegible] boost overall living standards enou[illegible] one day offset jobs lost in the swit[illegible]

Johnson, on the other hand, isn't [illegible] efficient, it just pays local market [illegible] which are less, says Dave Jones, he[illegible] business development at the Johns[illegible] unit. Result: The switch helps Ame[illegible] become more competitive but does[illegible] help the overall economy. Rather, t[illegible]

ins 1% below its level today, accord- an analysis of BLS by the Economic Institute (EPI), a ington think tank. st of professions hrived in the 1980s ow treading water. rding to a national y by Robert Half, y 80% of the 142 ategories it surveys counting, informa- systems, and com- al banking received -inflation raises last

Back in '93, P&G CEO Artzt saw that weak wage growth meant tightfisted consumers—even in a recovery

NOW RETIRED, ARTZT PUSHED VALUE-PRICING STRATEGIES

w college gradu- face similar prospects. Starting salaries have lagged d inflation since 1991 for most of the 70 majors tracked e National Association of Colleges & Employers, which ys some 350 college job-placement centers each year. ting salaries aren't going up because we have a surplus lege grads coming into the market every year," says k Scheetz, the head of a student career development institute at Michigan State University.

In recent years, you could count on working wives to kick up family buying power. But buyouts, layoffs, and lukewarm job growth has cut two-earner households from a peak of 45.8% of families in 1989 to 44.9% in 1993, the last year available, according to the Census Dept., after rising steadily in the 1980s. While that may not sound like much, if that higher rate had been maintained, an additional 1 million families would have two wage-earners today. And the share of families with no earners at all (which includes retirees) hit 21.8% that year, a full point higher than in the late 1980s.

The combination of subpar pay gains and fewer wage-earners has already bitten deeply into family pocketbooks. Per capita disposable personal income has crawled along at 1.5% a year over inflation in this recovery, half the average of prior ones, according to the Bureau of Economic Analysis (BEA). And with fewer dollars flowing in, families are more careful

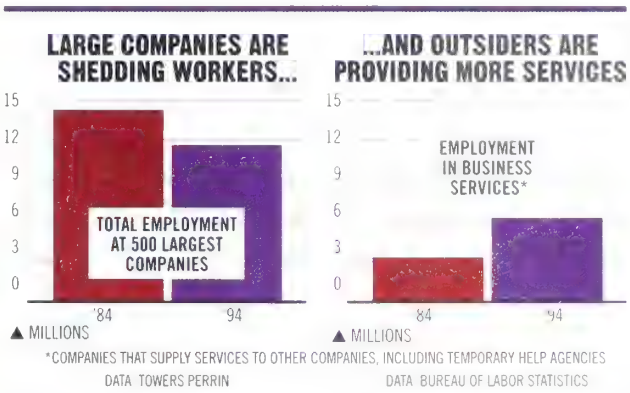
s depresses wage levels for , and income is merely trans- n employees to shareholders. s often find it makes sense to ecause they can orient their l markets rather than to the ey're in," says Jeffrey A. managing principal at Towers

ower wages aren't always the ve in the current outsourcing 're often the result. Take rcel Service, which recently ld farm out 5,000 jobs at its r-service centers. UPS built ound the country because ded to look at written records package or assign a pickup. entire system is computer-

one's in ... All of a n, we're not d anymore"

RELEDER, A 27-YEAR UPS HOPES HE'LL BE OFFERED A B NEARBY WHEN HIS CUS- RVICE CENTER CLOSES

ll agents have access to the mation. So management decid- olidate into 8 to 10 locations siders run each center. ne's in shock and doesn't know ink. All of a sudden we're not ymore," says Roger Sporeled-



*COMPANIES THAT SUPPLY SERVICES TO OTHER COMPANIES, INCLUDING TEMPORARY HELP AGENCIES

DATA: TOWERS PERRIN DATA: BUREAU OF LABOR STATISTICS

er, a 27-year employee near Chicago, who hopes UPS will offer him a similar job nearby when his center closes.

But look what happens to pay: UPS call-center employees earn $10 to $12 an hour, in line with the industry norms. Agents employed by APAC, the Cedar Rapids (Iowa) company that UPS chose to run three of its centers, get the local-market wage for telephone clerks: $6.50 to $8 an hour, depending on the city.

THIS PHONE FOR HIRE. APAC, a private telemarketing company, has cut pay elsewhere, too. Since entering the customer-service business three years ago, it has won contracts from Western Union, Compaq, Quill, and Sears specialty catalogs. APAC has hired 2,600 telephone workers in 24 locations and plans to hire an additional 1,300 this year, says Donald B. Berryman, the vice-president in charge of this division. He expects his unit to hit 10,000 workers soon. APAC's other unit, which employs 2,400 and is growing at 30% a year, sells insurance policies and credit cards outsourced by insurers and banks. "When you call our clients' 800 numbers, you get us," says Berryman.

Even when pay isn't cut, outsourcing often seems to just move chess pieces around on the board. Last year, Xerox Corp. signed a $3.2 billion deal to let Electronic Data Systems Corp. supply all its computer needs for the next decade. But most of the savings comes from replacing Xerox' outdated technology, which EDS can buy more cheaply because it buys in bulk. Small savings stem from higher labor efficiency by EDS, say officials at both companies. In fact, EDS agreed to take all 2,000 Xerox computer-systems workers at their same pay. This is typical of EDS's subcontracting deals, which account for half of its 80,000 employees, says Micki Cobb, EDS's human resources manager.

Even if EDS-style outsourcing doesn't improve national productivity, it seems good for most people involved. Xerox reduces its expenses, EDS gets more business, and most employees aren't hurt. Trouble is, many other outsourcing deals don't add up to the same kind of win-win proposition.

By Aaron Bernstein in New York, with Wendy Zellner in Dallas and bureau reports

about piling on debt. Total household borrowing, including mortgages and installment credit, has grown at less than half the speed of the heady 1980s, according to Federal Reserve Board data compiled by Dean Witter.

The result is a country of cautious consumers. One of them is Nancy Mudd, who in late May lost her $40,000-a-year job as an American Airlines Inc. ticket agent at the Louisville airport. Her job ended after 11 years when American turned over the airport's operations to AMR Services, another unit of AMR Inc., the carrier's parent. American offered Mudd a job at the same pay in Columbus, Ohio, but she turned it down because her husband, an American mechanic, couldn't move. She also rejected the $16,000 a year AMR Services offered her to do her old job in Louisville. Mudd found work as a family counselor for a funeral home. But it pays only commissions, and she says she'll be lucky to earn $30,000 a year. "We've cut back since we heard about my job last fall," says Mudd. "We were going to replace my husband's 1978 Grand Prix, but we haven't. And we're cutting back on vacations."

Cover Story

"NOT AN ABERRATION." Consumers' newfound prudence is most evident in big-ticket items. Auto sales peaked at 15.1 million last year, vs. a peak of 16.1 million in 1986, despite a surge in the adult population of nearly 10%. Housing starts totaled 1.45 million last year—20% less than their 1986 high. And airline traffic, which more than doubled in the 1980s, has risen only 32% since 1989, according to Avitas Inc. Overall, inflation-adjusted consumption expenditures per person have climbed at only 1.6% a year since 1991, compared with an average of 2.86% a year in prior rebounds, according to the BEA. "This is not an aberration, it's a permanent trend," says Dean Witter's Carson, who believes global competition and technological change will keep the pressure on wages.

"We were going to replace my husband's 1978 Grand Prix, but we haven't"

AFTER AMERICAN AIRLINES TICKET AGENT NANCY MUDD LOST HER $40,000-A-YEAR JOB AMR OFFERED HER THE SAME WORK—AT $16,000 A YEAR

Soft demand is a prime factor behind the relative weakness of this recovery. Despite a 20% jump in corporate investment since 1991, per capita gross domestic product has edged up a mere 1.5% a year since the recession's end, less than half the average of previous upturns, according to the BEA.

While slow income growth and a tepid recovery pose troubling issues, most policy analysts agree it would be folly for the U.S. to give back the gains in economic efficiency that have been achieved through the past decade of corporate restructuring. And even in the face of Mexico's economic collapse and the trade dispute with Japan, few are questioning our commitment to an open economy and free trade.

But sooner or later, the promise of this economic strategy has to be fulfilled for the majority of Americans. The sight of bulging corporate coffers co-existing with a continuous stagnation in Americans' living standards could become politically untenable.

At the same time, it's unlikely that corporate executives, charged with keeping their companies razor-sharp in the face of relentless global competition, will soften their edge. As Mobil's Adams put it: "There's a very intense determination in executive suites across America not to give away hard-fought improvements. It may be a long time before this shakes through and wages rise."

If anything, things could get worse before they get better. "If the economy slumps, the pressure on wages will get even more intense," says former Fed Governor Angell, now the chief economist at Bear Stearns.

Longer term, of course, the argument is that as economies grow overseas, they will buy more U.S.-made goods, creating more jobs and demand here. Over a truly extended time frame, overseas wages will rise to meet ours. But we are currently in uncharted waters, and the plain truth is that no one knows how long it will take to get to this economic nirvana—assuming we eventually do—or at what level global wage equilibrium will settle. "The new standard in this country is how much value people are adding vs. what people elsewhere in the world can add," says Edward Lawler, a management professor at the University of Southern California.

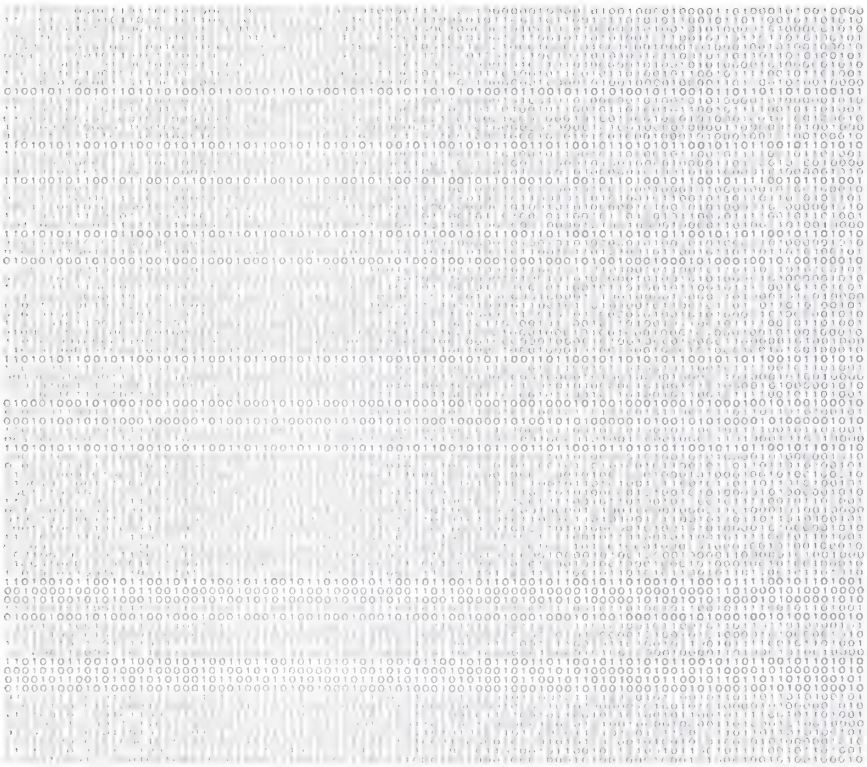
In the meantime, the burden is likely to fall on the political system to educate and contain an increasingly distressed workforce. The elections last November highlighted an angry, frustrated population. So far, however, most of the debate has centered on Big Government and excessive taxes. Even left-leaning Democrats such as Labor Secretary Robert B. Reich have focused on attacking corporate welfare and tax breaks for the rich.

But as the '96 campaign heats up amidst a softening economy, the class-warfare rhetoric of a Jesse Jackson or the economic nationalism of a Pat Buchanan or Ross Perot may get a wider hearing. "The people who voted for change in 1992 and 1994 comprise a vast swing group of voters, disillusioned and angry, with no strong party allegiance," says Reich.

Experts of all political stripes have worried about the widening inequality between high- and low-skilled workers in recent years. And the gap continues to swell because blue-collar types are slipping faster than professionals. In the past few years, however, all but the most elite employees have landed in the same leaky boat. If they all come to stress their common fate more than their differences, it could spell trouble for corporations and politicians alike.

By Aaron Bernstein in New York, with bureau reports

Your customer data has never really given you a clear picture of your customer.



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STRATEGIES

BROWNOUT AT WESTINGHOUSE

Investors are tired of waiting for Jordan's turnaround

This has not been a good year to be Michael Jordan—either of them. The basketball star returned to his team amid great fanfare in March, but his hopes of turning the Chicago Bulls back into champions quickly died out. As for the other Michael Jordan, who took over as chief executive of Westinghouse Electric Corp. amid equally high turnaround hopes, spurring a comeback has been just as hard.

Michael H. Jordan arrived at the Pittsburgh conglomerate as one of the most prominent members of the "Class of '93," the group of outside turnaround specialists brought in by boards after shareholder revolts. Like Lou Gerstner at IBM, George Fisher at Eastman Kodak, or later Albert Dunlap at Scott Paper, he came to clean up a corporate mess. For two years, he has asked shareholders to be patient. If they gave him time to cut costs and fix Westinghouse's debt-laden balance sheet, Jordan promised, the core businesses would provide something investors haven't seen since the 1980s: dramatic growth.

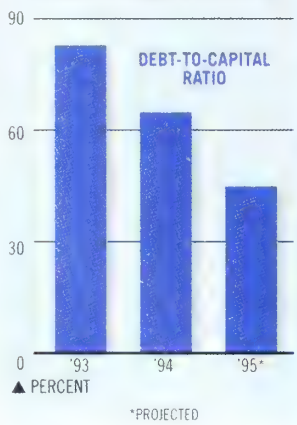
But on June 28, a disappointed Jordan surprised Wall Street with news that a turnaround may be further away than he had thought. Citing falling orders in the company's core power-generation and nuclear businesses, Jordan announced that second-quarter earnings would fall 30% to 40% below 1994's $75 million. Worse, at 10¢ to 11¢ per share, earnings will be little more than half analysts' consensus projection of 19¢.

UNDERWATER OPTIONS. Shareholders wasted no time reacting. In heavy trading, they pushed Westinghouse down 8%, to 14½. A day later, perhaps buoyed by Jordan's assurances that yearend earnings would top last year's $128 million (before restructuring charges) by 20%, the stock stabilized. But while rivals such as Gerstner and Dunlap have roughly doubled their companies' stock since taking over, Westinghouse shares have dropped 11% from their peak after Jordan was named (chart).

Perhaps no one feels the pain more than Jordan: The millions in options he received in 1993 remain underwater. He staunchly defends his record—and complains that the comparison with other companies isn't fair. "They didn't have a bad bank," Jordan declares. "We did."

Certainly, that is true. Following the collapse of Westinghouse Credit Corp. in the early 1990s because of bad real estate loans, Westinghouse was buried under $6 billion of debt, just a step away from bankruptcy. To pay down the debt and keep from going under, Jordan's predecessor, Paul Lego, put a third of the $13 billion company on the block. Jordan continued to sell off chunks. And with the expected sale of $500 million real estate developer Westinghouse Communities Inc. in July, debt could reach a manageable $2.5 billion, or 35% of capital, by the end of this year.

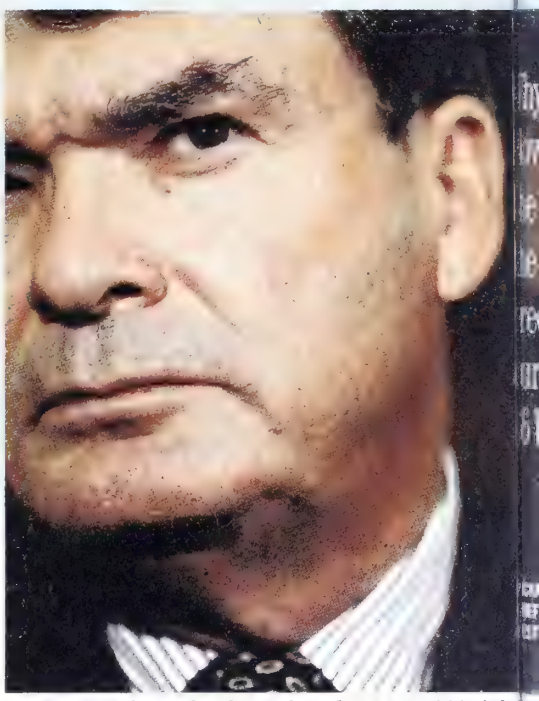
WESTINGHOUSE'S BALANCE SHEET LOOKS BETTER...



Easing Westinghouse's debt burden isn't enough to calm restive shareholders, however. Jordan has won kudos from investors for his amiable yet straight-shooting style, which contrasts sharply with Lego's. But they want him to boost returns, possibly by selling off divisions that they no longer see as key—a move Jordan has so far persistently opposed.

"We frankly have a greater sense of u gency than he's had," grumbles investo Robert A. G. Monk, a principal of LE Inc., which holds $3 million in Westin house stock. Adds Dale M. Hanson, t former CEO of the California Public E ployees Retirement System, who thr years ago led the shareholder push revamp Westinghouse management: "I not a company I'm inclined to invest Clearly, the turnaround has not been fast as a lot of people hoped."

LOWBALL BIDDING. With the disappoin ing second quarter, Jordan now fac mounting pressure to show better r sults. He may have to find a strateg partner for his $2.5 billion defense-ele tronics division or move more quick to unload $567 million Knoll Group In Jordan wanted to revive the mone losing furniture business before sellin it off, but he may not have that luxur And he could feel more pressure speed cost-cutting across the compan



where he has already cut 7,000 jobs

Jordan's problem is that the bes growth opportunities for the $8.9 bi lion conglomerate are in smaller div sions, such as broadcasting and th Thermo King Corp. refrigerated-trans port unit. Although they're performin well, they cannot carry the entire com pany. At the same time, growth pros pects for his big power divisions, whic account for 45% of sales, are dim an distant—in such risky markets as Chin and Ukraine.

Westinghouse's culture is anothe worry. The 59-year-old former Pepsi

c. executive and McKinsey & Co. ltant admits that he has had a time igniting his hoped-for revolu- which would turn the company an army of engineers into a hot- of entrepreneurs. While he has kled headquarters with new mar- and finance executives from Pep- l McKinsey, so far they've made impression on the old guard who run the technology businesses. on says the contrast with Fisher dak is particularly sharp. "Fisher s to have taken on the bureau- Jordan has not," he says. Indeed, n admits that some of his units, ling power generation, are still ng for a vision of their place in arket.

be sure, Jordan has put large piec- a strategy in place. As he shops new joint-venture partner CBS Inc. dio and TV stations and expands no King plants around the world, counting on double-digit growth sh both $870 million units over $1 in two years.

y is recovery so w? Jordan cites collapse of company's edit arm, which ried it under billion in debt

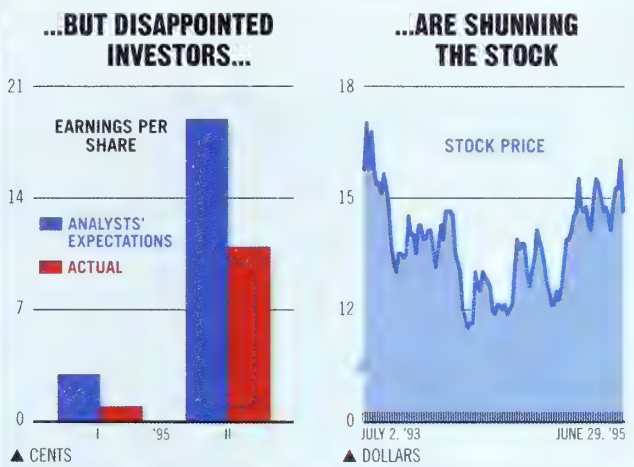
AEL JORDAN
EXECUTIVE
INGHOUSE ELECTRIC

build for the long term, Jordan on trade missions with Commerce tary Ronald H. Brown and pushed wer contracts in Asia and nuclear- revamps in eastern Europe—both rowth markets. Westinghouse ed its rivals last summer when it n agreement with Shanghai Elec- Engineering Corp. on a $100 mil- nufacturing joint venture to build turbines. Rivals such as General ric Co. had written off Westing- 's chances a few years back be- of its poor financial health, but nghouse sealed the deal by agree-

ing to manufacture locally and transfer technology.

The deal, the largest joint venture in China's power industry, assures Westinghouse a sizable piece of the country's gigawatt-starved market. And inside the company, the Shanghai deal was viewed as a triumph over GE. Westinghouse's steam turbines are ideally suited to China's coal-powered economy, leaving GE more oriented toward gas power, struggling for a foothold in the China market.

Even so, rivals say that Westinghouse may be setting itself up for future earnings problems. With the U.S. market stagnant and Europe protected, margins are shriveling in Asia as all the players—Asea Brown Boveri, GE, Mitsubishi, Siemens, Westinghouse, and others—fall over one another to sell equipment. Westinghouse has signed more deals this year than anybody, and rivals claim that in its desperation to find growth, it's offering some of the best bargains. Says one competitor in Hong Kong: "We've been astonished at the prices Westinghouse has been offering and don't know how they can succeed." Jordan argues that if Westinghouse can work its way into growth markets—even if it takes lowball bids—earnings will come later. "I keep telling people, you can't deposit margins in the bank," he says.



DATA: COMPANY REPORTS, BLOOMBERG FINANCIAL MARKETS, ZACKS INVESTMENT RESEARCH

Jordan's other big hope for long-term growth is the $1.23 billion nuclear division. Although sales have ebbed in recent years, Jordan believes they can be revived with new plant sales in Asia and revamps of reactors in eastern Europe.

Eastern Europe is probably his best shot. There, Westinghouse hopes to perform something akin to a "brain transplant" on a generation of Soviet-built nukes by installing the latest process-control equipment as well as new safety systems. Two years ago, Westinghouse fended off Siemens to win a $400 million contract for its first upgrade, the Temelin plant in the Czech Republic. As in China, Westinghouse won the contract by moving technology to the host country and pricing low. A cheap financing deal from the Export-Import Bank cinched the deal.

With 44 plants throughout eastern Europe in need of upgrades and fuel, the potential is enormous. But most customers require financing, which is in short supply. Even with its balance sheet improving, Westinghouse is having to explore barter deals. And it continues to fight powerful Siemens for business in eastern Europe. What's more, the Russians are battling to win back former customers. They've disseminated reports that Westinghouse lacks proper technical information to work on the plants—a charge Westinghouse labels absurd.

"RING-KNOCKER" HAVEN. The other big hope for the division is the AP600, Westinghouse's latest-generation nuclear power plant. Jordan is aiming to sell the plants in China for $800 million apiece. But first, he must persuade the U.S. government to lift the export controls on nuclear technology that were imposed following the Tiananmen Square massacre of 1989. If that doesn't happen, he hopes to sell one elsewhere in Asia, perhaps in Indonesia. He argues that once an AP600 is working in Asia—performing more cheaply and safely than the current reactors—Americans might again start ordering nuclear plants. But even Jordan won't hazard a guess as to when.

To spur the growth he needs, Jordan knows he will have to do a better job of creating a market-driven culture. The division is dominated by what insiders call "ring-knockers." These are veterans who worked in Westinghouse's program to help the Navy develop nuclear ships. All received commemorative rings for their service. Victims of the layoffs at the nuclear unit complain that in the old-boy network, ring-knockers survive. "They get rid of marketing people and keep the engineers," claims a former employee. Westinghouse denies the charge, and Jordan claims that the culture is changing. Still, until he infuses a sense of entrepreneurial urgency into the unit, the Bulls' shot at a championship looks more promising than this Jordan's chances for a strong turnaround.

By Stephen Baker in Pittsburgh

ARTIFICIAL INTELLIGENCE

COMPUTERS THAT THINK ARE ALMOST HERE

The ultimate goal of artificial intelligence–human-like reasoning–is within reach

Back in the days when computers were as big as house trailers, Herbert A. Simon, professor of psychology and computer science at Carnegie Mellon University and a future Nobel laureate, had a flash of inspiration. He was strolling through a park in October, 1955, when it suddenly dawned on him how he could program a computer to reason on its own. He and fellow CMU computer scientist Alan Newell spent Christmas vacation writing a small program to prove the concept. Dubbed Logic Theorist, the software enabled a computer to work out independently the proofs for simple math theorems.

When school resumed in January, Simon walked into his mathematics class and dropped a blockbuster. "Over the Christmas holiday," he told his students, "Al Newell and I invented a thinking machine."

Thus began the modern search for the Holy Grail of computer science: an artificial intelligence that can rival the human brand—and even surpass it. The ultimate goal is nothing less than a machine with a mind of its own. This electronic wizard would discover new knowledge through bolts of digital insight, solve problems in leaps of silicon intuition, and learn from its mistakes. Forty years later, though, the common perception is that artificial intelligence (AI) has been a dismal disappointment. But anyone who believes that needs to take another look.

AI is alive and well in thousands of applications in commerce, industry, and the professions. More than 70% of America's top 500 companies are using it, according to a recent Commerce Dept. survey. The study pegged 1993 AI software sales at $900 million worldwide—and last year, the market probably topped $1 billion. If these numbers come as a shock, it's because AI often doesn't get the credit it's due. "Whenever something works, it ceases to be called AI," says David Shpilberg, who heads Ernst & Young's information-technology services. "It becomes some other discipline instead," such as database marketing or voice recognition.

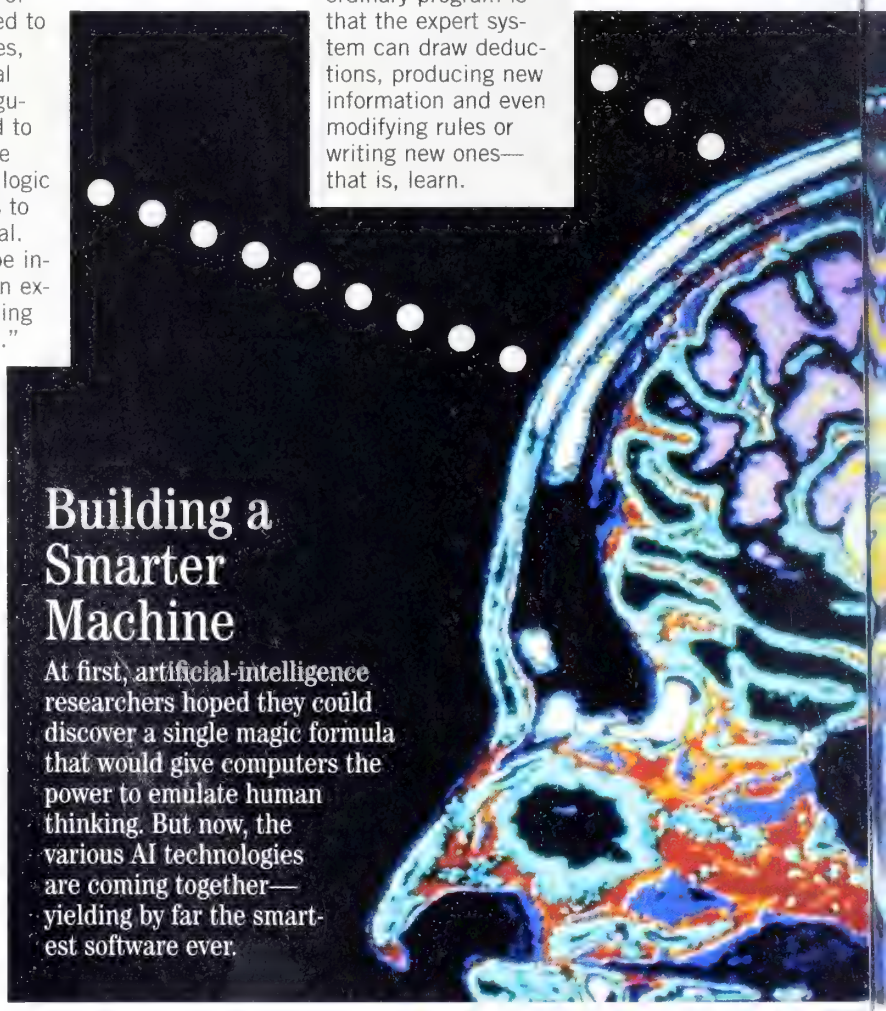
Probably the best example is object-oriented programming, now indispensab[illegible] to the software industry. Programs t[illegible] size of IBM's OS/2 or Microsoft Corp[illegible] Windows 95 are too complex to devel[illegible] in one fell swoop. So the job ge[illegible] chopped up into modules, which a[illegible] linked via smart connectio[illegible] that enable the different el[illegible] ments to exchange data a[illegible] function cohesively. AI r[illegible] searchers boosted the o[illegible] ject-oriented approach in[illegible] the big leagues. "Withou[illegible] question, object-oriente[illegible]

FUZZY LOGIC

A precise system of rules not restricted to "either/or" choices, enabling it to deal better with ambiguities. People tend to think in imprecise terms, and fuzzy logic allows computers to seem more natural. Fuzzy logic can be incorporated into an expert system, making it a "fuzzy expert."

EXPERT SYSTEM

A group of rules that outlines a reasoning process. What distinguishes expert rules from the rules in an ordinary program is that the expert system can draw deductions, producing new information and even modifying rules or writing new ones—that is, learn.



Building a Smarter Machine

At first, artificial-intelligence researchers hoped they could discover a single magic formula that would give computers the power to emulate human thinking. But now, the various AI technologies are coming together—yielding by far the smartest software ever.

THE OLD MODEL: *Magnetic resonance image of a human brain*

ramming is AI's biggest contribution r," says Shpilberg.

rhaps not for much longer, though. y, AI's ultimate quest seems almost n grasp. Indeed, some researchers ve the question is no longer whether ill give birth to inherently intelli- machines, but how soon. Optimists nly predict 10 or 15 years. Already, scientists are running experiments once would have seemed science fic- Researchers at Massachusetts Insti- of Technology are building an an- robot and educating it like a child ad of feeding it ed software. Others even growing silicon s (page 71).

SCANS. Companies t losing any sleep ering when AI sys- will become truly ligent. They're too unleashing the test systems yet by essing new AI tools e blazing speeds of 's desktop comput- Whether the results really intelligent important, says Piero P. Bonissone, a computer scientist at General Electric Co.'s AI lab—"just so they get the job done."

Because they do, AI is solidly entrenched in manufacturing, engineering, and finance—and catching on in marketing, services, and government. Hospitals and doctors are using AI programs developed by institutions such as Massachusetts General Hospital and George Washington University, plus a dozen small suppliers such as Odin and Applied Informatics. These software packages help prevent adverse interactions among drugs prescribed for patients, check 50 million electrocardiograms a year, and diagnose illness—often more accurately than doctors do. Government jobs include screening welfare recipients and assisting U.S. Customs agents to spot illegal cargo.

Banks have become big-time converts because AI is saving them a bundle. Among MasterCard International Inc.'s member institutions, for example, AI programs designed to nip credit-card fraud in the bud have prevented the loss of an estimated $50 million over the past 18 months. Many banks use so-called neural networks from such suppliers as HNC Software Inc. in San Diego. Because neural networks are structured to mimic the rudimentary circuity of brain cells, they learn from examples and don't require detailed instructions. A neural net consists of computer simulations or silicon circuits that resemble a network of brain cells. The network learns by strengthening or weakening the interconnections among these various neurons. Banks train neural nets to spot oddities in the purchasing patterns associated with individual accounts. The software is so effective it regularly notices that a card is stolen before the owner does.

Now, MasterCard wants to help banks scrutinize transactions among stores as well as individual accounts. The idea is to flag signs of scams. MasterCard is enlisting Los Alamos National Laboratory—and a bevy of AI techniques. Using multiple processes in combination, says Steven V. Coggeshall, the Los Alamos physicist who heads development, "will provide synergies and lead to innovative solutions" not feasible before.

Blending two or more AI technologies, each contributing a strength to offset a weakness in the other, has emerged as a major trend. At least a dozen suppliers, from small outfits such as BioComp Systems and Intelligent Machines to giants such as IBM, National Semiconductor, and Toshiba, offer hybrid software.

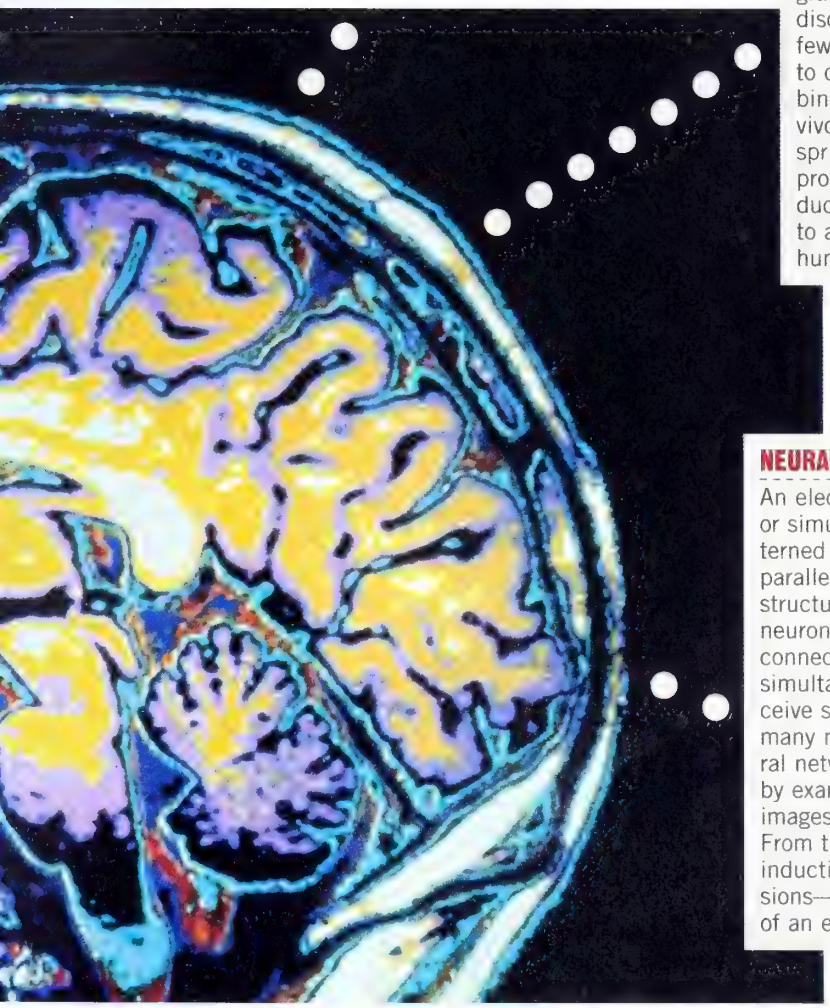
It's already big in Japan. Hitachi, Mitsubishi, Ricoh, Sanyo, and others have been revamping their product lines to incorporate hybrid AI in everything from home appliances to office equipment to factory machinery. GE's Bonissone, who examined some of the results at a recent Japanese trade show, says: "Their progress is scary. When I think about what we'll have to do to compete—well, running

DATA MINING

Extracting previously unknown information from existing data, often with the help of another AI program, using statistical and visualization techniques to discover and present knowledge in a form that is easily comprehensible to humans. Also known as Knowledge Discovery.

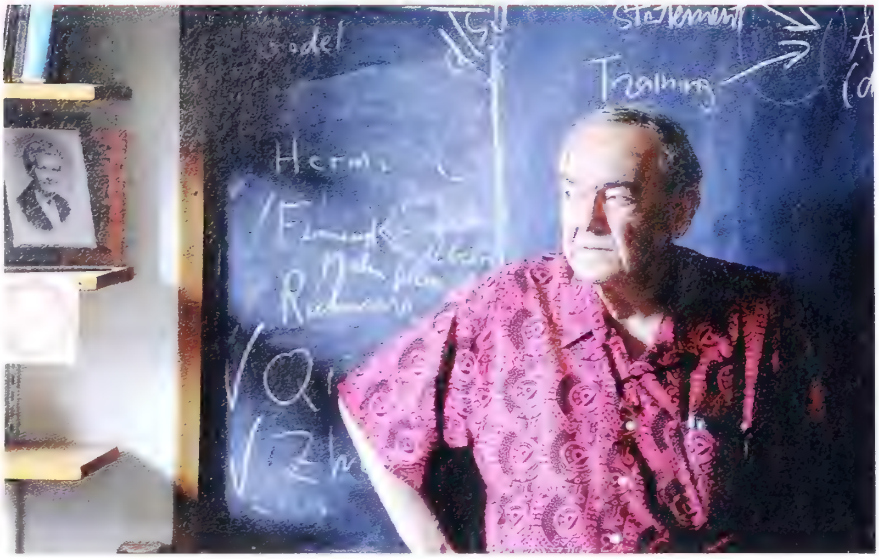
GENETIC ALGORITHM

A program that uses Darwinian principles of random mutation to improve itself. The program's various elements are broken down into segments, called chromosomes. They haphazardly link together to form programs. Most will get discarded, but the few that come close to doing the job combine with other survivors and spawn offspring programs—a process that may produce results superior to anything crafted by humans.



NEURAL NETWORK

An electronic circuit or simulation patterned on the brain's parallel-processing structure. Each neuron has multiple connections that simultaneously receive signals from many neurons. A neural network is trained by examples, such as images of faces. From these, it derives inductive conclusions—the opposite of an expert system.



NO PROBLEM? "Why people feel threatened, I don't know. We all know someone who's smarter than we are, and cars run faster."

—HERBERT A. SIMON

faster with the same tools won't do it."

Japan's AI craze kicked off in the late 1980s, focusing first on fuzzy logic. Unlike their Western counterparts, Japanese engineers weren't bothered by the technology's unfortunate name—the logic isn't fuzzy—and it became a central force in speeding new products to market. Fuzzy logic applies precise mathematical formulas to ambiguous phenomena, making it possible, say, for a camcorder to compensate for a user's unsteady hands.

TOP MARKS. In the 1990s, the Japanese have been moving up to hybrid systems, such as the "neurofuzzy" (neural nets and fuzzy logic combined) washing machine introduced in 1991 by Matsushita Electric Industrial Co. Nikko Securities Co. began working with AI researchers at Fujitsu Ltd. in 1989 to develop a neurofuzzy system to forecast convertible-bond ratings. The system was switched on in 1992, and Nikko says its advice has been on the mark 92% of the time.

Now, the Japanese are intent on hatching autonomous systems. By tightly integrating multiple AI techniques, Japan's Ministry of International Trade & Industry and more than a dozen companies aim to develop software that will imbue tomorrow's products with enough smarts to do whatever they do without human guidance. For traditional AI tools, that's tough, because they each address narrow aspects of intelligence.

Expert systems are great for capturing and preserving the savvy of specialists such as geologists to assist novices. But like humans, they can be inept in adjusting to rapid change. Neural nets, on the other hand, can deftly sift through mountains of data and uncover obscure causal relationships. Put the techniques together, and the combo edges closer to emulating human mental dexterity.

But neural networks are sensitive critters. If a neural net's training covers too much or too little data, it can be garbage in, garbage out. This is where genetic algorithms can help. These adapt the Darwinian principle of survival of the fittest to "breed" solutions, including how to design neural networks. Unlike neural nets, which start as blank slates and learn to find patterns and relationships hidden in data, genetic algorithms start with building blocks that are assembled in different ways to produce solutions. Genetic algorithms often produce astonishingly simple and innovative answers that have eluded humans.

It's not black magic—just the result of endless trial-and-error experiments. While a person will grow weary after a few dozen stabs at a problem and decide to settle for whatever looks best so far, a genetic algorithm keeps on going. It will tirelessly plod through millions of permutations. Most will be discarded instantly. But thousands may be promising approaches no human has ever evaluate

For example, when GE's designe were asked to come up with a more ef cient fan blade for Boeing Co.'s 777 j engines, they faced a mind-boggling arr of choices. The factors affecting a j fan's performance and cost add up to number with 129 trios of zeroes. A supe computer doing a billion calculations second would take billions of years test every combination. But an AI h brid—an expert system supplemente by genetic algorithms—cracked the pro lem in less than a week.

The hybrid system, dubbed Engen ous, starts with a pool of digital chr mosomes, each representing a design fa tor. These mix together to create dozen of hypothetical designs. The best mode are allowed to "breed"—to exchang genes and spawn a new generation fan blades, some of which are still bette Again, only the fittest survive to ele tronically breed. This process soon home in on combinations that will produce good design. In just three days, GE had design improving engine efficiency b 1%—no small feat in a field as mature a jet engines. "People kill for 1%," say Peter M. Finnigan, GE's research mar ager of mechanical-design methods.

BREAKING RULES. In another case, En geneous boosted the efficiency of a ne fan for power-plant turbines by 5%. As tonishingly, the genetic algorithm viola ed some of the expert system's desig rules. People tend to believe that wha worked before is the only way to go But Engeneous has no such assump tions, so it can find solutions human would dismiss out of hand. "Once yo understand how it did this, you ca capture the new knowledge in new de sign rules," says Finnigan, and thereb make the expert system smarter than i was before.

That points to a tantalizing prospect that genetic algorithms can find answer to issues too complex to even define. Or dinary smart systems need some notio of how to proceed—what's called the sys tem's model of the real world. Howeve this model can be misleading, since th forces that drive most real-world event are rarely understood in full. But genet ic algorithms—and neural networks—dis cover reality from the bottom up. Suc "model-free" methods can open new win dows of understanding, says Bart A. Kos ko, a computer science professor at th University of Southern California.

The stock market is a classic exam ple. Vast sums have been spent to devis statistical models in hopes of predicting movements in the price of index future or securities. But statistical systems tha

THE BRAIN BEHIND THE BRAIN

magine a computer with as much brainpower as all the people who have ever lived. Then add the nking power of all the humans yet be born before the sun dims and es into the blackness of space ne 5 billion years from now. That's ough idea of the brain that Hugo Garis dreams of creating.

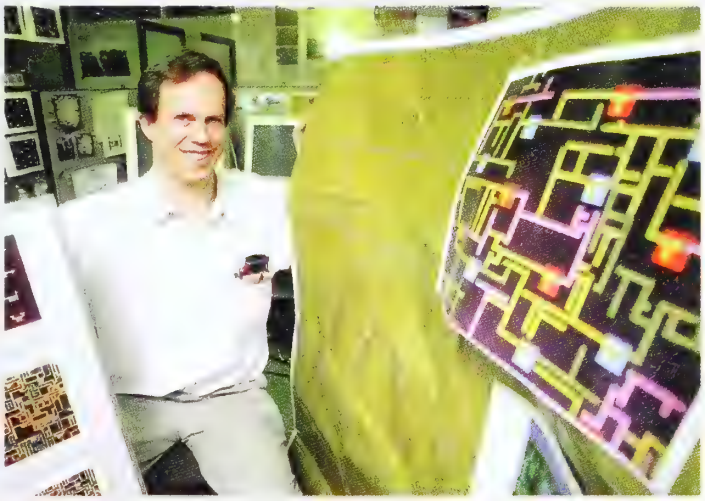
Its neurons would be sculpted m the ultra-tiny quantum transis- s that semiconductor researchers ve recently developed. With these, Garis envisions a silicon brain t packs as many neurons as a bil- n-billion human brains.

It's no pipe dream. De Garis has n over the Advanced Telecom Re- rch Laboratory (ATR), ich is backed by the panese government l Nippon Telegraph & ephone Corp. In 1993, e established the ain Builder Group in oto, where de Garis settled in for a very g-term project. "I will bably die here," says Garis, who was born wn Under 48 years and earned a PhD in ificial intelligence m the Free Univer- y of Brussels.

SIGNING. He figures it y take a decade or o to produce a silicon ain with a billion neu- ns, or 1% as many as people carry their skulls. But by then, de Garis l probably have found the key to ificial brains of unimaginable com- xity: a process of electronic evolu- n. It will not only coax silicon cir- ts into giving birth to innate elligence but imbue them with the wer to design themselves—to con- l their own destiny by spawning w generations of ever improving ains at electronic speeds.

The three-person Brain Builder oup is part of a $190 million, nine- ar project aimed at creating com- ter chips that mimic the human ain and nervous system. Other ATR earchers are working to recon- uct vision, hearing, and other nses in silicon circuits. The unify- goal is to create a new computer chitecture—a "hardware habita- n"—that will enable smart ma- nes to grow and evolve by Darwinian principles of survival of the fittest. In addition to ATR, a handful of other labs in Europe and the U. S. are working along similar lines, christened "evolvable hardware."

Already, de Garis is using a set of 11,000 artificial-evolution rules to guide the growth of simulated neurons and synapses on a two-dimensional plane. "But this is just a toy," de Garis admits, because these circuits are limited to a few connections each. For comparison, some human neurons connect to 100,000 other brain cells. "So the real complexity will come in three dimensions," says de Garis. Even with his 2-D plaything, though, he has evolved circuits that function like a primitive retina, among other simple feats.



VISIONARY DE GARIS: *Circuits that will design other circuits*

Now, de Garis is working on a new set of 80,000 rules that will run on a special breed of computer developed for artificial-intelligence research at Massachusetts Institute of Technology. Called a cellular automata machine, this $40,000 computer packs the punch needed to grow 3-D circuits. De Garis expects to simulate a kitten in a year or so.

Even within the small evolvable-hardware fraternity, de Garis is the odd man out. Skeptics say he puts too much trust in computer simulations and needs to run periodic reality checks. Inman Harvey, a mathematician who helped launch the evolvable-hardware group at Sussex University, asserts that simulations alone can't provide an environment rich enough to nurture the superbrain that de Garis wants to create. "Look out the window, and you've got an incredible amount of information coming at you at the speed of light," says Harvey. "That's why I and some others doubt his optimistic projections."

> People will need to adjust to the idea of ranking second on the intelligence scale

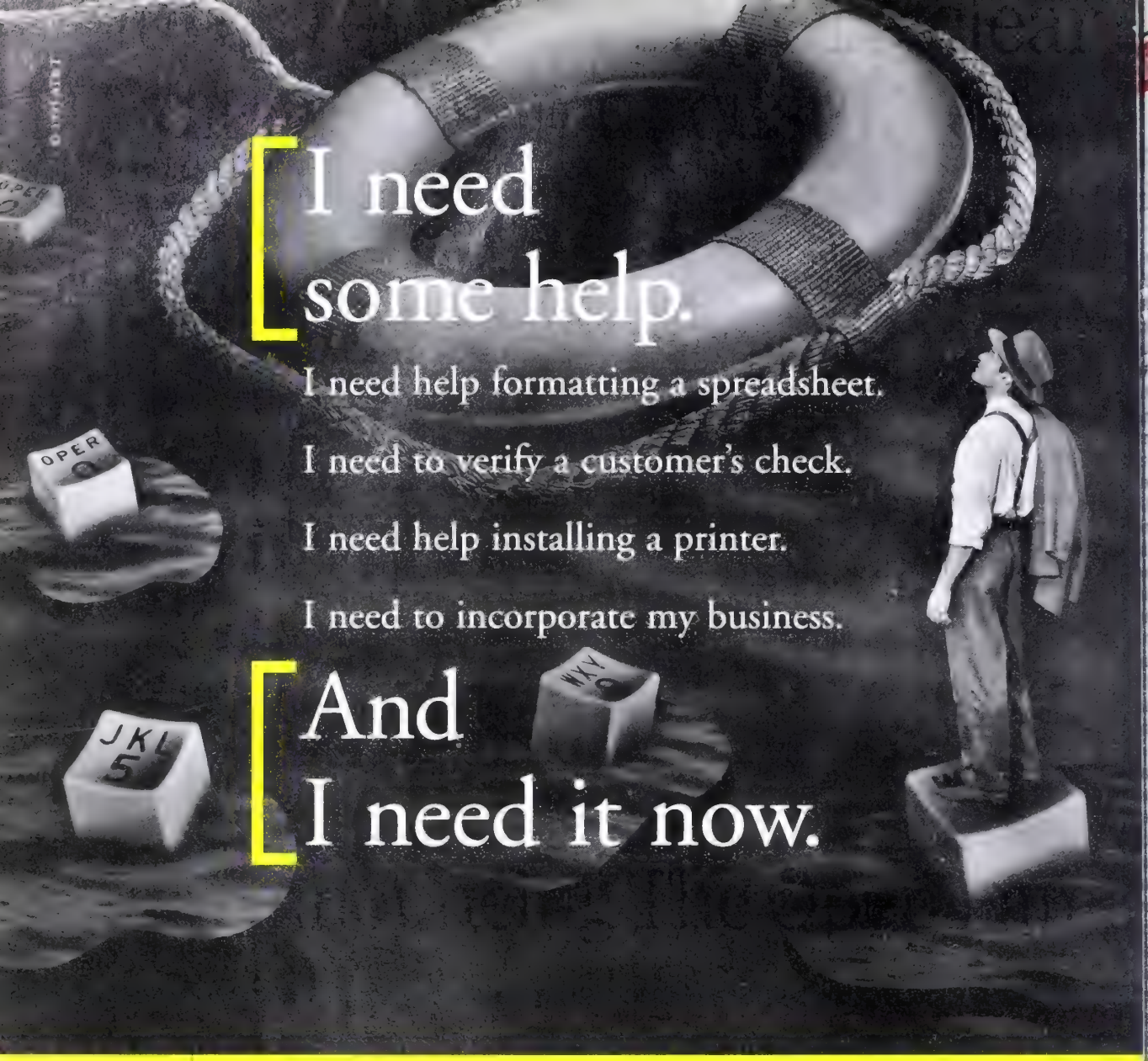
De Garis remains adamant. Using real-world experience to hone survival traits in lumbering electromechanical robots, he retorts, would severely hamper progress. Evolving a superbrain that way might take centuries, not decades. "If you don't simulate," he insists, "you don't get enough speed."

Slowing things down might not be such a bad idea, since it's doubtful that a couple of decades will allow sufficient time for people to adjust to the notion of ranking a poor second on the intelligence scale. Once it becomes clear that silicon evolution could unleash a new entity that might quickly advance beyond human control, de Garis and others envision fierce ideological debates over whether the building of such alien brains should be permitted. Even de Garis has reservations: "I'm worried, too, because I don't want to be swatted like a fly."

Despite the risk that his dream machine might turn into a science-fiction nightmare, de Garis believes it will be built, eventually—if not by scientists bent on unwrapping the last of nature's impenetrable mysteries, then by corporate researchers out to one-up the competition. The potential payoff from silicon brains only a little smarter than people could be enormous. And by then, the point of no return would probably have been passed.

By Larry Holyoke in Kyoto, with Otis Port in New York

MITSUHARU KASHINA



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in Builder wants to grow silicon brains ions of times as complex as human ones

l in bull markets run into trouble the market turns bearish. And roficiency inevitably degrades over since the market is a constantly ng, nonlinear milieu.

HOMABLE. So Citibank is taking a neurogenetic approach. Genetic ms evolve models that can predict cy trends under various past mar- nditions. But as they say on Wall past performance is no guarantee re returns. That's where neural ks come in. These brainlike cir- an discern which past model is to current trends. Since adopting pproach in 1992, Citibank has 25% annual profits on its curren- ling—much more than most hu- aders.

le no one would dispute that the fi- markets' antics remain unfath- some managers may be surprised r that factories are in the same One of manufacturing's dirty little ," says H. Van Dyke Parunak, a h fellow at Industrial Technology te in Ann Arbor, Mich., is that oor scheduling doesn't work, by ge. Each morning, the computers sophisticated manufacturing oper- spit out a detailed schedule for ay's production. But when some- oes haywire, the best-laid plans of and computer go out the window, managers to muddle through. sually happens within about 60 s, says Parunak, whether the plant ng semiconductors or automobiles. re & Co. has started to clean up with hybrid AI. The expert system for scheduling in one plant has pplemented by genetic algorithms. a machine goes on the fritz, the algorithms immediately begin g a new schedule. For chemical engineers at Microelectronics & ter Technology Corp. (MCC), a re- consortium in Austin, Tex., took a t hybrid route, coupling fuzzy log- eural nets. From reams of past ing data, the neural net figures at really makes a chemical process he result, which often is at odds nanagement's top-down view, is sed to fine-tune a simulated pro- Once the simulation is humming, tware generates fuzzy-logic rules imizing the real plant. This ap- was so successful in its first tryout 0 at an Eastman Chemical Co. plant—improving some operations by 30%—that MCC spun off the technology as Pavilion Technologies Inc. Today, Pavilion's software is helping 500 plants maintain peak output in the chemical, paper, and refining industries.

The bottom-up approach isn't necessarily unique to neural nets and genetic algorithms. Take Bacon, an expert system that Simon and Newell wrote in the 1970s. Given basic data on the solar system plus a few hints—for example, if two numbers vary in concert, look for a ratio—Bacon quickly pieced together Kepler's third law of motion. It also rediscovered Ohm's law of electrical resistance. "What this shows," says Simon, "is that great scientific discoveries can be produced by feeding known data to a fairly simple set of rules."

BABY TALK. Today, with huge amounts of data residing in scientific databases—many of them online, ready to be combed out by software similar to Bacon—who knows what new discoveries are waiting to be teased from cyberspace? Already, companies are sifting through their internal databases, searching for unnoticed relationships. This frequently turns up new knowledge that can tip the competitive scales—for example, what it takes to keep customers loyal.

But today's smartest AI systems may soon seem like baby patter next to what could be in store. Perhaps the most electrifying project now under way is at Japan's Advanced Telecom Research Institute. ATR's Brain Builder Group in Kyoto wants to use genetic techniques to grow silicon brains trillions of times as complex as a human one.

Even without ATR's brains, Simon of CMU is positive that computers will become more intelligent than humans. "Why people feel threatened by that, I don't know," he says. "We all know someone who's smarter than we are, and cars run faster than we do. Why is this so different?" So, Simon is upbeat: "Our species can stand some improvement—and we can use all the assistance we can get."

If such fantasies ever come to pass—and it might happen in our lifetimes—we could witness the emergence of an artificial intelligence that far outstrips its creators'. The implications of that are profoundly exciting. And a little frightening. It may be that only a machine will be capable of figuring it all out.

By Otis Port in New York

ENDORSEMENTS

REBEL WITH A CACHET

Marketers love Dennis Rodman's oddball antics

Why would anyone pay flamboyant San Antonio Spurs forward Dennis Rodman major bucks to endorse a product? After all, the 34-year-old robo-rebounder with the psychedelic hair and belly-button ring is, by his own admission, cynical, self-centered, and authority-hating. Sound familiar? Rodman is almost a walking cliché of supposed Generation X attributes. So far two marketers have recruited him to slam-dunk their products home to that elusive group.

Rodman is definitely not from the squeaky-clean, face-on-the-cereal-box school of celebrity endorsers. Openly defiant of his coach and boastful of his late night revels and gambling habit, he has made himself into a bizarre rebel. In one of his latest public tantrums, a pouting Rodman removed his sneakers and refused to confer with teammates after he was benched in the closing seconds of a game in this spring's National Basketball Assn. playoffs. Then there was the recent *Sports Illustrated* cover featuring Rodman in a halter top, metallic hot pants, and a studded dog collar. Rodman, who is single and avowedly heterosexual, displays a public penchant for gay bars. He showed up for a playoff game in April sporting white hair emblazoned with a red AIDS-awareness insignia. That followed earlier dye jobs of magenta, neon green, and brick red.

BABY-BUSTER APPEAL Despite these exploits—or perhaps because of them—Rodman has won a couple of big-time national endorsements. He's in the middle of a three-year contract with Nike Inc. and earlier this year appeared in a commercial for Pizza Hut Inc. So what is his appeal? "A sponsor who hooks up with Rodman is going after sports fans, particularly young, urban sports fans," says Alan Friedman, editor of *Team Marketing Report*, a Chicago-based sports-business publication. "Once you get beyond the younger set, his antics are more disturbing than appealing."

Rodman's sponsors believe he strikes a chord with the elusive twentysomething market. After the Pizza Hut spot—part of a campaign to launch Stuffed Crust Pizza—premiered in late March, sales jumped almost 15%. And Nike is happy with what it's getting. "Dennis may be a little odd, but he's committed no crimes and he's very much a part of our future," says Tom Feuer, manager of public relations at Nike.

PIZZA HUT PUSH: *Teammate David Robinson gives an assist in a TV commercial*

Using any celebrity endorser carries a risk. Plenty of advertisers have been badly burned when their high-priced talent self-destructed in messy scandals. Consider the plight of Hertz Corp., which used O. J. Simpson as its spokesman for 20 years. "Hertz had a huge investment in O. J. and now all that equity is gone," says Jed Pearsall, president of Performance Research, a Newport (R. I.) sports-marketing research firm. There have been other backfires: The vocal anti-gay crusade of spokeswoman Anita Bryant put her employer, the Florida Citrus Dept., in an uncomfortable position. And Michael Jackson was dropped by PepsiCo Inc. after his tour was canceled in the wake of child-molestation charges. Still, using sports figures and celebrities as endorsers remains big business.

RED HAIR? WHAT DO WE CARE?

Pizza Hut and Nike are shelling out big bucks for Rodman's bad-boy image.

PIZZA HUT Teamed Rodman with fellow Spurs player David Robinson in national TV ad for Stuffed Crust Pizza. Ad premiered in late March and ran during prime-time. Fee: $150,000.

NIKE Signed Rodman to a three-year contract to endorse Nike products. Featured in national TV and cable ads with other NBA stars. Fee: $375,000.

Using a pitchman such as Rodman may actually be less risky than choosing a star with an image that's shinier—and so more prone to tarnish. "With Dennis' controversial image, sponsors know what to expect," says David Burns, founder of Burns Sports Celeb

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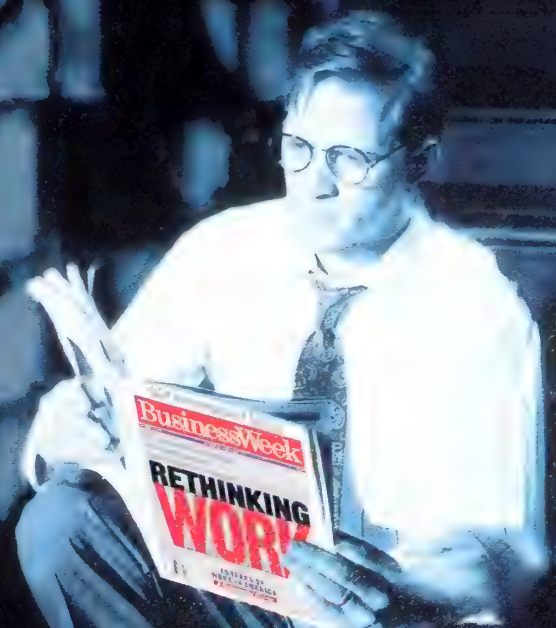

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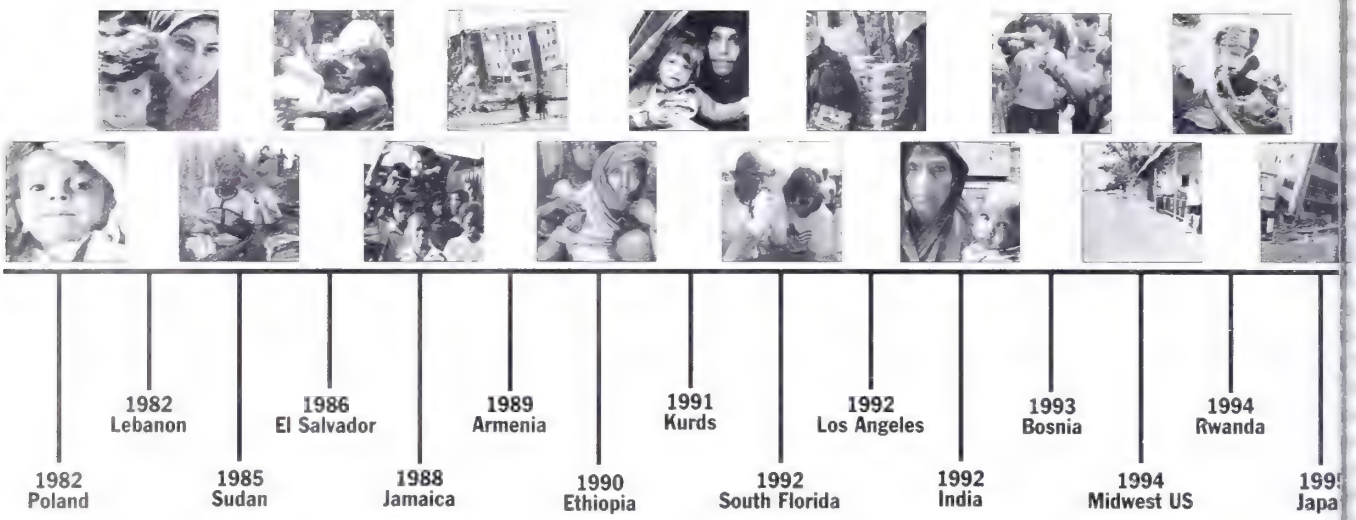

Some see a timeline. We see a lifeline.

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rvice Inc., a Chicago-based sports firm. "No matter what he does, will be no surprises." Besides, cts today have a lot more escape s, allowing sponsors to bail out imal cost at the first hint of drug xual scandal, or criminal charges. e of Rodman's fans on Madison e see his shenanigans as part of a ting ploy. "Dennis has cultivated eated his bad-boy persona," says B. Dusenberry, chairman of BBDO York Inc., the agency behind the Hut commercial. "He's decided to himself marketable and not blend e wallpaper of the NBA."

man, whose highly publicized re-hip with Madonna ended last year, s to have been an apt student of een of outrageous self-promotion. from well-televised on-the-court he has talked with Warner Bros. d Walt Disney Co. about possible roles. Crown Publishers Inc. re- a biography last year, and Rod-as widened his appeal by appear- major TV shows, including *The Show with David Letterman* and *might Show with Jay Leno*. "Den-s an agenda," explains Brandon r of New York-based Steiner Marketing Inc., a sports talent He sees a world beyond basket-nd he's positioning himself."

STATS. Like his platinum ex, an does have credible talents in sen profession. He led the NBA in nding last season for the fourth utive time, a feat matched only by s Wilt Chamberlain and Moses e. Still, in basketball's crucial of-e statistics—scoring and assists—an's numbers are embarrassingly e'll never be the sort of franchise an owner can build a team l, such as the New York Knicks' k Ewing or the Houston Rockets' m Olajuwon. Worse, he's virtually chable, and his childish behavior ienated teammates. NBA sources e Spurs are trying to unload their power forward.

man seems unconcerned. Sports ters agree that if he lands in a city, say New York or Los An-his endorsement possibilities would y multiply. Moralists may opine merican society is in decline when ate sponsors prefer self-appointed y rebels to more traditional clean-e models. But as long as Rodman eep his face—and ever-changing olor—in the papers while avoid-rious trouble, he will find market-lling to pay for his kind of flair. med lack of reliability, though, isn't act: Rodman failed to deliver on a ed interview with BUSINESS WEEK.

By Willy Stern in New York

REGULATION

ARE REGS BLEEDING THE ECONOMY?

Maybe not. In fact, they sometimes boost competitiveness

To the Republican Congress, regulations are like a red cape waved in front of a raging bull. "Our regulatory process is out of control," says House Science Committee Chairman Robert S. Walker (R-Pa.). He and other GOP leaders charge that nonsensical federal rules cripple the economy, kill jobs, and sap innovation. That's often true: Companies must spend enormous sums making toxic-waste sites' soil clean enough to eat or extracting tiny pockets of asbestos from behind thick walls.

That's why GOP lawmakers on Capitol Hill want to impose a seemingly simple test. In a House bill passed earlier this year and a Senate measure scheduled for a floor vote in July, legislators demand that no major regulation be issued unless bureaucrats can show that the benefits justify the costs. "The regulatory state imposes $500 billion of burdensome costs on the economy each year, and it is simply common sense to call for some consideration of costs when regulations are issued," says Senate Majority Leader Bob Dole (R-Kan.).

That sounds eminently reasonable. But there's a serious flaw, according to most experts in cost-benefit calculations. "The lesson from doing this kind of analysis is that it's hard to get it right," explains economist Dale Hattis of Clark University. It's so hard, in fact, that estimates of costs and benefits may vary by factors of a hundred or even a thousand. That's enough to make the same regulation appear to be a tremendous bargain in one study and a grievous burden in the next. "If lawmakers think cost-benefit analysis will give the right answers, they are deluding themselves," says Dr. Philip J. Landrigan, chairman of the community medicine department at Mount Sinai Medical Center in New York.

There's a greater problem: The results from these analyses typically make regulations look far more menacing than they are in practice. Costs figured when

DAN VALLARINO

a regulation is issued "almost without exception are a profound overestimate of the final costs," says Nicholas A. Ashford, a technology policy expert at Massachusetts Institute of Technology. For one thing, there's a tendency by the affected industry to exaggerate the regulatory hardship, thereby overstating the costs.

More important, Ashford and others say, flexibly written regulations can stimulate companies to find efficient solutions. Even critics of federal regulation, such as Murray L. Weidenbaum of Washington University, point to this effect. "If it really comes out of your profits, you will rack your brains to reduce the cost," he explains. That's why many experts say the $500 billion cost of regulation, bandied about by Dole and others, is way too high.

Take foundries that use resins as binders in moldmaking. When the Occupational Safety & Health Administration issued a new standard for worker exposure to the toxic chemical formaldehyde in 1987, costs to the industry were pegged at $10 million per year. The assumption was that factories would have to install ventilation systems to waft away the offending fumes, says MIT economist Robert Stone, who studied the regulation's impact for a forthcoming report of the congressional Office of Technology Assessment (OTA).

BOTTOM LINES. Instead, foundry suppliers modified the resins, slashing the amount of formaldehyde. In the end, "the costs were negligible for most firms," says Stone. What's more, the changes boosted the global competitiveness of the U.S. foundry supply and equipment industry, making the regulation a large net plus, he argues.

While federal rules that improve bottom lines are rare, regulatory costs turn out to be far lower than estimated in case after case (table). In 1990, the price tag for reducing emissions of sulfur dioxide—the cause of acid rain—was pegged at $1,000 per ton by utilities, the Environmental Protection Agency, and Congress. Yet today the cost is $140 per ton, judging from the open-market price for the alternative, the right to emit a ton of the gas. Robert J. McWhorter, senior vice-president for generation and transmission at Ohio Edison Co., says the expense could rise to $250 when the next round of controls kicks in, "but no one expects to get to $1,000." The reason: Low-sulfur coal got cheaper, enabling utilities to avoid costly scrubbers for dirty coal.

Likewise, meeting 1975 worker-exposure standards for vinyl chloride, a major ingredient of plastics, "was nothing like the catastrophe the industry predicted," says Clark University's Hattis. He found in a study he did while at MIT that companies developed technology that boosted productivity while lowering worker exposure.

Of course, it's possible to find examples of underestimated regulatory costs. And even critics of the GOP regulatory reform bills aren't suggesting that cost-benefit analysis is worthless. "We should use it as a tool" to get a general sense of a rule's range of possible effects, says Joan Claybrook, president of the Ralph Nader-founded group Public Citizen. But she and other critics strongly oppose the Republican scheme to kill all regs that can't be justified by a cost-benefit exercise. As a litmus test for regulation, "the uncertainties are too broad to make it terribly useful," says Harvard University environmental-hea professor Joel Schwartz.

What is useful is moving away from command-and-control approach to reg lation. There's widespread agreeme among companies and academic expe that bureaucrats should not specify wh technology companies must install. I far better simply to set a goal, th give industry enough time to come with clever solutions. "We need the fr dom to choose the most economical w to meet the standard," explains Al Krauer, chairman of Ciba-Geigy L Krauer, for example, points to ne cleaner, processes for prod ing chemicals that end being far cheaper than stalling expensive cont technology at the end of t effluent pipe.

DUMB THINGS. But wh goals are being set for dustry, the proposed co benefit analysis approa could have a perverse effe That's because agencies a rarely able to foresee t low-pollution processes indu tries may concoct. Smok stack scrubbers are a go example. The bean-counte will use the known price expensive scrubbers in th analyses. Their cost-bene calculations will then arg for less stringent standar And those won't help spa cheaper technology. The r sult can be the worst of bo worlds: costlier regulation without sign icant pollution reductions. "It's a vicio circle," explains Stone. "If you pred that the costs are high, then you stim late less of the innovation that can bri costs down."

There's no doubt reform is neede "Frankly, we have a lot of dumb en ronmental regulations," says Harvar Schwartz. But he puts much of t blame on Congress for ordering agenci to do dumb things. Now, Congress tackling an enormously complex iss without fully understanding the ramifi tions, Schwartz and other critics wor Overreliance on cost-benefit analys could make things worse for busine workers, and the environment.

By John Carey, with Mary Be Regan, in Washington

Regulation Isn't Always a Costly Burden

Many regulations cost much less than expected because industry finds cheap ways to comply with them.

VINYL CHLORIDE
Reducing worker exposure to this carcinogen was predicted to put a big chunk of the U.S. plastics industry out of business. But automated technology cut exposures and boosted productivity at a much lower cost.

COTTON DUST
1978 regulations aimed at reducing brown lung disease helped speed up modernization and automation and boost productivity in the textile industry, making the cost of meeting the standard far less than predicted.

ACID RAIN
Efficiencies in coal mining and shipping cut prices of low-sulfur coal, reducing the need to clean up dirty coal with costly scrubbers. So utilities spend just $140 per ton to remove sulfur dioxide, vs. the predicted $1,000.

"If lawmakers think cost-benefit analysis will give the right answers, they are deluding themselves"

D BY NEIL GROSS

EO GAMES' Y NEW GLOW

THE PAST 35 YEARS, emitting diodes) have brightened thing from road to digital clock dis- Now, they're poised netrate the $15 bil- ideo game market. ndo of America Inc.'s awaited Virtual Boy, launched on Aug. 14, riced at $180, uses t red LEDs against a background to cre- hree-dimensional im- of sports, pinball, and ing games.

you gaze into Virtu-

y's headset, each eye s at a separate dis- assembly, known as a ed linear array. It sts of a thin column 4 LEDs, reflected in a r that vibrates to e a rectangular im- By staggering the s projected to each Virtual Boy produces ing effects—including his-game shot from layer's perspective. flection Technology n Waltham, Mass., the arrays and has lesigned them into a ess, handheld fax ma- You can stare into a inder to read a fax— , red on black—or to a printer. Reflec- which is partly d by Nintendo, has l a prototype with Corp. and hopes to se a product in Octo- or less than $400.

A GREEN LAWN—AND LOTS MORE LEISURE

WEEKEND YARD WORK MAY NEVER BE THE SAME. Researchers in Australia and Canada have discovered that a synthetic version of a plant hormone can slow the growth of ordinary lawn grass without diminishing its color or lushness. The compound—a type of growth regulator called gibberellin—causes grass to grow at only one-fifth to one-third the normal rate. With a monthly spraying, said Richard Pharis of the University of Calgary, mowing could be reduced to once every 30 days. Treated grass also requires less water and fertilizer—an urgent concern to people maintaining golf courses, large estates, or country clubs.

Serendipity played a classic role in the discovery. Pharis and investigators at the Australian National Laboratory in Canberra were synthesizing gibberellins to understand how they stimulate plant growth and flowering. A manufacturing error produced a variant. And when they tested it, the new synthetic stunted grass growth—possibly by competing with natural gibberellins in the grass. The researchers applied for a patent, and in the meantime, Abbott Laboratories, Dow Chemical, and DuPont have all expressed interest in licensing it. Shrubs and garden weeds, alas, are not significantly affected.

A FIRST DEFENSE AGAINST DOWN'S SYNDROME

DOCTORS AT THE ILLINOIS Masonic Medical Center in Chicago have pioneered a test to help women undergoing *in vitro* fertilization avoid carrying a child with Down's syndrome. If one of their eggs appears to carry the extra chromosome associated with Down's, it's simply not transferred to the womb.

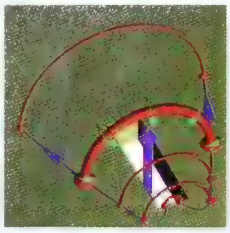
According to a team led by Dr. Yury Verlinsky, director of the center's Reproductive Genetics Institute, the extra chromosome can be detected by examining the "polar body," a sac that is cast off by the egg and carries a mirror image of its chromosomes. Of the 6 babies and more than 20 ongoing pregnancies since the trial began, none has Down's. Now, Illinois Masonic is recruiting other hospitals to help establish statistically that the test works.

Illinois Masonic plans to charge $2,000 to $3,000 for the test, on top of the $7,000 or more for ordinary *in vitro* fertilization. The test won't rule out Down's syndrome entirely, since in about 5% of cases the extra chromosome originates with the sperm, not the egg.

FREEZE! IT'S THE VORTEX POLICE

WHIRLPOOLS—OR, MORE properly, vortices—can be a drag. In water and air, they slow down ships, planes, and cars. In magnetic form, they limit how much current can pass through a superconductor. But vortices are difficult to study in a typical flow because there are so many of them, all interacting. So a team at the University of California at Berkeley, led by physics professor Richard E. Packard, is creating vortices one at a time in a flow of "superfluid" helium—that is, helium cooled to less than two degrees above absolute zero so that it swirls forever without loss of energy from friction. And they're creating computer graphics that will help them understand the phenomenon.

In the June 19 issue of *Physical Review Letters*, the Berkeley team reported that horseshoe-shaped vortices sprang to life when the superfluid coming through a slit in a tiny box reached a critical velocity. The horseshoe vortex (in red) would then pass in front of the superfluid stream (purple arrow), gaining in size and energy as it sapped energy from the stream. Packard, who is funded by the Office of Naval Research and the National Science Foundation, has proposed building a superfluid-helium gyroscope to detect tiny changes in the earth's rotation rate.



(CLOCKWISE FROM TOP) ILLUSTRATION BY MICHAEL ALBRECHT; ILLUSTRATION COURTESY JAMES P. DAVISON AT BERKELEY


This finger checks the software.
This finger checks the hard drives.

finger checks
stem memory.

This finger
inventories monitors.

Walk. Walk. Walk.
Check computer.
Walk. Walk. Walk.
Check computer.

Introducing the new Compaq Deskpro

Walk ten hours a day, five days a week and you realize walking, running and trudging from one PC to the next is no way to manage a network.

To make life a lot more efficient and a lot less aerobic, we've designed a network ready PC you can manage, monitor and even inventory from a single location, single-handedly. (Did you get all that?) Reintroducing the Compaq Deskpro.

At Compaq, It Dawned On Us That It's A Lot Easier To Maintain A Network Of PCs By Hand Than By Foot.

This PC literally and technologically is like no other out there. How so? Well, our engineers designed the Deskpro to tell you who it is, what it's doing and how it feels. So now, managing a network doesn't involve guesswork or footwork.

For a more in-depth look at what the Deskpro is capable of, just call your local Compaq reseller. And feel free to put your feet up while you do it.

This finger is a thumb.
It's only good for the space bar.

COMPAQ

COMMENTARY

By Karen Pennar

IS THE NATION-STATE OBSOLETE IN A GLOBAL ECONOMY?

The U. S. and Japan battle to the brink over trade in autos and auto parts. The dollar tanks, and central banks struggle to defend its value. The Mexican peso crashes, and the U. S. cobbles together a rescue package. Leaders are learning that the global economy is a messy place, where events easily spin out of control. What's more, what one leader thinks is the best domestic policy often doesn't matter, since international considerations swamp the best-laid plans. The economic sovereignty of nations is eroding, and it hurts. "The ultimate resource of a government is power," observes Neal Soss of economic consultants Soss & Cotton Enterprises LP, "and we've seen repeatedly that the willpower of governments can be overcome by persistent attacks from the marketplace."

Today, governments large and small feel under siege. The biggest challenge comes from global capital markets, where money moves faster than people or goods ever can. But challenges are also coming from the proliferation of new clubs such as the World Trade Organization. It's grist for the mill of politicians like Pat Buchanan, whose calls for an America First policy touch a sensitive nerve.

In the swirl of news about trade disputes and currency crises, though, it's important to remember three things. First, the erosion of sovereignty is relative: Large governments continue to maintain a strong hand over their economies. Second, the erosion of sovereignty is not always a bad thing. After all, many countries voluntarily cede sovereignty so as to increase trade and gain national income. What's more, the global marketplace can be a disciplinarian—and can have the salubrious effect of forcing governments to adopt more responsible economic policies. As Federal Reserve Board Chairman Alan Greenspan recently put it: "The new world of financial trading can punish policy misalignments with amazing alacrity."

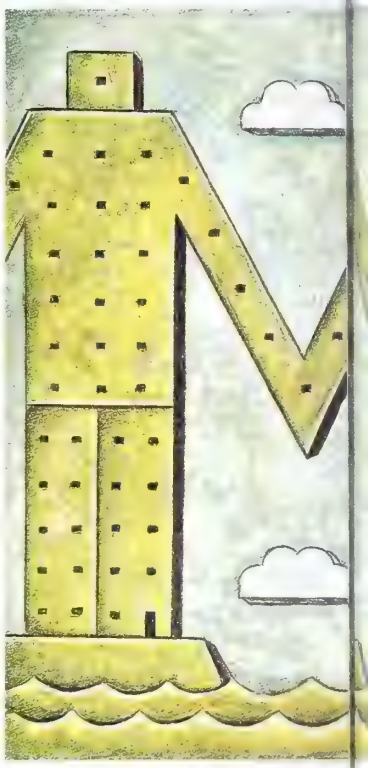
Finally, the nation-state will not soon be replaced, and national autonomy is not withering away. True, the world is moving toward more cross-border cooperation through international institutions—despite political tussles and noisy opposition in some quarters. And more finance and trade will be conducted through regional pacts. Ultimately, though, all nations can prosper, and individual governments will certainly play a big role in ensuring that economic well-being improves at home.

Right now, though, many Americans blame the harsh reality of economic life on globalism and declining sovereignty. Foreign competition appears to rob U. S. workers of jobs, while foreign capital seems to breed dependence. Fickle financial markets, meanwhile, have become judge and jury of economic policymaking. President Clinton learned this early in his Administration, when he struggled to make budget cuts deep enough to appease the bond market. More recently, he felt the heat yet again when the dollar came under fire.

Nothing is quite so striking a symbol of national prestige as a currency, yet it seems that little can be done these days to guarantee its status. In a market that trades $1 trillion worth of currency daily, the few billions that central bankers can buy and sell are peanuts. Since the late 1980s, says one European central banker, "central banks have realized that they cannot manipulate the markets—that any battle of strength they would lose."

CHIPPING AWAY. Trade disputes, too, challenge the autonomy of governments to set their own agendas. Here, the U. S. has more recently played the role of aggressor, pushing competitors such as Japan into making concessions in the trade of autos and auto parts. For the Japanese, who want to maintain a highly regulated domestic market, the threat to sovereignty is keenly felt—and heartily resisted. Over time, and through constant exposure to more open systems, that resistance is being ever so slowly chipped away. And even though the Japanese are now making some concessions, it still looks to many Americans as though it's the U. S. that has, with its relatively open market for imports, conceded the most over the years.

The U. S. no longer dominates world output as it once did, so its clout is naturally diminished. But its lo sovereignty is not nearly so dr as some Americans suspect. Af imports and exports account fo 22% of gross domestic product— smaller share than for most of ca's trading partners. Similarly, the stocks that Americans own U. S. issues—a sign of persiste bias" in investing. Fed Vice-Ch Alan S. Blinder concludes that U. S. economy, while more oper the 1950s and 1960s, is conside more closed than the "globalize tend, and so Americans are thu



able to control our own destiny.

That's not the case for count such as Mexico. Free-market p and the North American Free Agreement drew a surge of for capital in the early 1990s. But t prise devaluation of the peso in 1994 set off a stampede out of paper, and the plunge in the pe spectacular. One government ef ter another to stabilize the situ foundered, and the shock waves began to ripple as far as Argen and even Asia, where Thailand's

ing. Eventually, it took a S. rescue effort to dampen isis.

all countries not in crisis and the constraints imposed conomic forces—or by their hbors. The Netherlands, for s hitched its monetary poli- many's, and so must pursue anti-inflation policy even pro-growth efforts might

E. Across Europe, such ced- nomy in economic decision- preading—by design. In- uropean Union provides a mple of how nations volun- up something, such as the t to set their own product r the implicit right to set nonetary policies, in ex- unfettered access to one an-

kets. The results can be n Sweden, which recently EU, rice is now pricier than use rice produced in the EU . On balance, though, the le, financial transactions, e cross-border exchange of tal promises healthier all members of the EU than otherwise achieve.

agreements are based on ough usually less sweep- ary concessions of sover- t's why the debate over NAFTA was so heated. In retrospect, it's clear that NAFTA did far more than threaten U. S. labor or environmental standards: In effect, it linked the U. S., Canada, and Mexico in an embrace that would force the stronger nation to prop up the weaker in a crisis. Right now, that concession seems pretty expensive to Americans who opposed the agreement, but the price should seem less onerous over time, as the gains from trade become more apparent.

The WTO, whose mettle is yet to be tested, also demands that members accede to globally set rules for trade. Had it ruled against the U. S. in the auto dispute with Japan, that might have prompted calls for the U. S. to pull out of the WTO. But many economists and world leaders believe there is no choice but to push for multilateralism—even while pursuing bilateral or regional solutions to trade disputes.

The best way to pry open markets and spur economic cooperation appears to be through repeated efforts on many fronts. Indeed, the U. S. experience with Japan thus far bears this strategy out: Brinkmanship in bilateral talks has wrung grudging concessions from the Japanese, which a strategy based solely on appeals to the WTO would not have produced. Yet for other disputes, such as those over intellectual property, multilateral talks have proved fruitful.

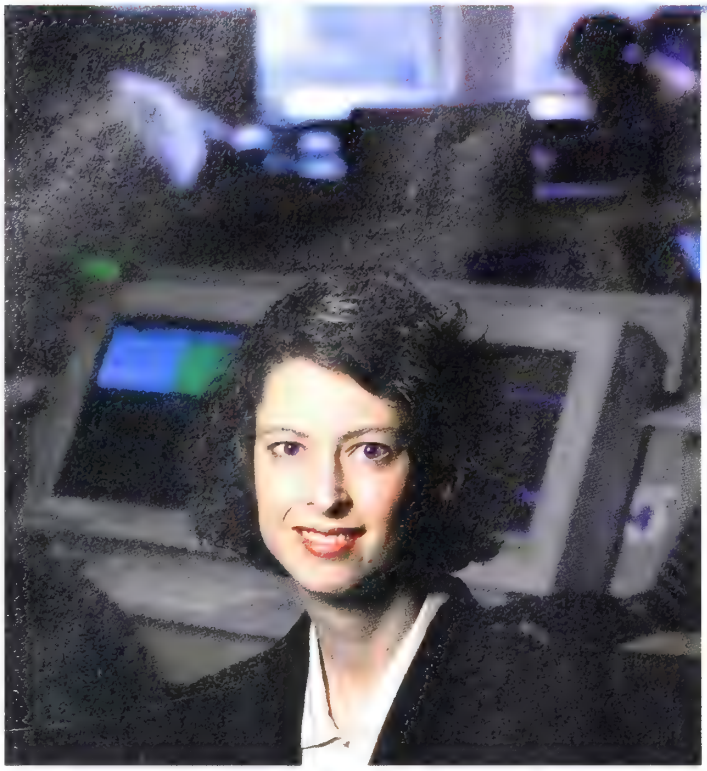
The interdependence that characterizes trade and finance around the world will be increasingly marked by disputes and conflicts that somehow must be resolved. Conflicts will also occur in multiple jurisdictions. Today, there's a buzz of activity at every level of government. In the U. S., taxpayer revolt starts at the grass roots. The states want more power to devolve from Washington to them. Elsewhere, in regions from Quebec to Catalonia, separatists are agitating. In Europe, regional integration is proceeding on an unprecedented scale, while individual governments retain the power to implement EU regulations. Meanwhile, institutions such as the still untried WTO take on a supranational cast. Slowly, and certainly with some missteps along the way, these forums will resolve differences and help smooth the frictions in the global economy.

Governments feel that world market forces are usurping their authority. But national autonomy is not withering away

FOR THE BEST. There is no alternative—if individual countries bar the gates, they can neither save industries and jobs nor improve living standards. No less a powerhouse than Japan must, over time, cede some sovereignty, and when it does, its citizens may begin to enjoy a more comfortable life and partake of the global surplus that the Japanese government has accumulated in its mercantilist zeal. The U. S., for its part, must maintain the openness that has characterized its role in the global economy—and continue to press other countries to become more open. Giving up some sovereignty should not be a zero-sum game. Ultimately, everyone's welfare will improve.

All of that should perpetuate the nation-state, not threaten it with extinction. Power, after all, is synonymous with economic vitality. If that vitality can be sustained, even through greater international cooperation and the erosion of traditional notions of sovereignty, then governments can and will retain power.

Pennar is a senior writer covering economics.



Abigail Johnson

BORN
1961

EDUCATION
B.A., 1984, Hobart and William Smith Colleges
MBA, 1988, Harvard

WORK EXPERIENCE
Portfolio manager, Fidelity OTC, *April '94 to present*
Fidelity Dividend Growth, *Apr. '93-Apr. '94*
Fidelity Sel. Dev. Communications, *June '91-Jan. '93*
Fidelity Sel. Telecommunications, *June '91-May '92*
Fidelity Sel. Industrial Equipment, *Oct. '88-Aug '91*
Director, FMR Corp, *May '94 to present*, 24% voting stake
Research analyst, Booz, Allen & Hamilton, *'84-'86*

MUTUAL FUNDS

THE DAUGHTER ALSO RISES

How fast and how far will Abby Johnson go at Fidelity?

It's an unusual way to groom a future CEO. At Fidelity Investments, the boss's daughter manages the $1.9 billion Fidelity OTC Portfolio, an assignment that has virtually no relation to the day-to-day operations of her family's sprawling financial-services empire. "It's a full-time job, plus," says 33-year-old Abigail P. Johnson, adding that when she's not working 11-hour days running the fund, she's home in the Boston suburbs taking care of her 4-month-old daughter, Julia. "I don't have time to go messing around in other departments," she says.

Perhaps not now. But it's looking increasingly likely that Abby—who shares her 65-year-old father Edward C. "Ned" Johnson III's interests in art, skiing, and, of course, mutual funds—will eventually succeed him as chairman of the nation's largest mutual-fund firm. Johnson isn't saying when he plans to step down, but he clearly wants his daughter to have first crack at his job. Last year, he quietly gave her a 24% voting stake in Fidelity's parent, FMR Corp., an amount equal to his own. He also made her a director of FMR. If the changes result in her taking over Fidelity, she'll oversee a family fortune worth more than $5 billion, according to industry estimates.

FIDELITY OTC PORTFOLIO

Assets:
$1.9 billion

Total return:
1995*, 25.2%; April '94-June '95*, 24.8%

*THROUGH JUNE 30. APPRECIATION PLUS REINVESTED DIVIDENDS AND CAPITAL GAINS

Does Abby want the job? In her first interview since taking on her new responsibilities, Abby gave an answer that continues a Johnson tradition of being vague about the company's affairs: Between giggles a blush prompted the question whether she wants succeed her father she says: "I re don't know. It's h to predict what's ing to happen." says she's going run the otc Portf for the foreseea future.

Nonetheless, now has more on plate than most her fellow fund m agers. As a direc she's one of six co dants of her fat who oversee Fideli complex web of companies, which g erated $3.5 billion revenue and $315 lion in net operat income last year range from a global nancial-services co plex to an art gallery and a newspa chain. "I participate in some discuss of overall corporate policy and big-p ture strategic issues," Abby says.

RUNNING ON INSTINCT. Yet her posit does not give her a say in manag the firm's day-to-day affairs. That's h dled by a seven-man operating comm tee, headed by her father, on which does not serve. Nor could she use voting stock to contest her father's power. Ned holds sway over an additional 32% in family-owned stock.

TOP TEN HOLDINGS*

Intel
Microsoft
Sun Microsyst
Novell
Oracle
Tele-Communic
MCI Communic
Apple Compu
Amgen
Wang Laborat
(New Delawa

*APR.30, LATEST AVAILAB DATA FIDELITY OTC POR

Abby suggests the director's job and the stock came with no strings attached. "It was really just for traditional estate-planning purposes," she says. Her sister, Elizabeth, 32, and brother, Edward IV, 30, have shown little interest in working at Fideli "Naturally, since I'm the one here a working, it made sense for me to par ipate," she says.

Ned Johnson doesn't clear up matt about his daughter's future role. "I pleased she's interested in the busine but only time will tell what her futu role might be," he says. "My goal is

the best-qualified person run the
ny in the future." His current suc-
n plan, which would kick in only if
t an untimely death, would have
y run by a committee of unnamed
managers—presumably members
FMR board and operating commit-
hough control would remain in the
. The committee would be charged
inding a new chairman.
nson's résumé hardly speaks of
ne prepared to manage a widely
ified, multibillion-dollar corpora-
ny time soon (table). But she's fol-
the Johnson tradition. Both her
and grandfather—who founded
ty in 1946—started out managing
. Both were star investors in their
Johnson III produced a 104% gain
g Fidelity Magellan Fund in 1967.
neither had experience managing
companies, so they ran Fidelity
y on instinct—something Abby
ave to do as well. "I have no idea
she is at managing people or
er she's shown an interest in oth-
rts of the company" other than
nanagement, says A. Michael Lip-
resident of Lipper Analytical Ser-
Inc., a leading data provider and
tant to the mutual-fund industry.
Y RESERVE. How's Abby as a fund
er? This year, she has been among
y's top managers. The OTC Portfo-
up 25.2% through June 30, vs.
for the NASDAQ composite index.
g Fidelity's growth funds, OTC
fourth, slightly behind Magellan.
nson earned that record by re-
uring the flagging OTC Portfolio
she took it over in April, 1994.
nd had 15% of its assets in cash
nother large chunk of assets in
stocks, which are not a signifi-
part of the fund's charter. She
y cut back on the cash and loaded
technology (table)—just like many
fellow Fidelity managers—and
as paid off handsomely. In her
us assignment, the Fidelity Divi-
Growth Fund, she was up 18.3% in
1-month tenure, almost doubling
rformance of the average growth
luring that period.
t's impressive, and it could help
ithin the company if she takes the
It's also possible that she could
ally take the chairman's job but
daily operations to others. Clearly,
hole discussion makes the John-
a close but low-key family—un-
We're essentially private people—
normal folks," she says. "We don't
big, fancy lifestyle, and we're not
excited about having the spot-
on us." But when your company
ges $313 billion of other people's
, that spotlight is hard to avoid.

By Geoffrey Smith in Boston

BANKING

DEUTSCHE BANK GOES ON THE ATTACK

It's grabbing talent–and making Wall Street nervous

SHONNA VALESKA

A sleeping giant is awakening on Wall Street. Its name is Deutsche Bank, and it has begun to stomp on some important toes. After five years of hand-wringing over whether and how to become a player in global and U.S. investment banking, the mighty Frankfurt institution is staging a frontal assault on the business in the U.S. Most visible has been its hunt for talent. Deutsche Bank has riled U.S. investment banking firms, notably Merrill Lynch & Co., by luring away top capital-markets professionals with fat compensation packages and guarantees.

BIG BANK, BIG IDEAS "We're trying to be one of the most powerful universal banks in the world"

—JOHN ROLLS, Deutsche Bank

Says one Merrill official with a shrug: "Some were good bankers. It doesn't hurt Merrill, but it's a pain in the neck." Adds M. William Benedetto, president of Benedetto Gartland & Greene, a New York investment bank: "All the firms are worried now that their best bankers will get a call from Deutsche Bank. It's raising the cost . . . to do business."

But Deutsche Bank has bigger plans than that. It intends to acquire a 25% stake in Gleacher & Co., a merger-and-acquisition advisory firm with whom it has an informal fee-sharing arrangement, as soon as it gets Federal Reserve Board approval. It recently acquired ITT's commercial finance unit for $868 million, one goal being to obtain inventory for asset-backed securities deals.

And on July 5, Deutsche Bank, whose

global investment banking activities have been fragmented, consolidated them with Morgan Grenfell, a British merchant bank it acquired in 1990, into a new London-based unit, Deutsche Morgan Grenfell. It will be headed by Deutsche Bank board member Ronaldo Schmitz, regarded as the mastermind of the strategy. "We're trying to be one of the most powerful universal banks in the world," declares John Rolls, chief of Deutsche Bank's U. S. operations.

CRUMBLING BARRIERS. Deutsche Bank is joining a small coterie of other big foreign banks, notably Union Bank of Switzerland and Swiss Bank Corp., that are pursuing a global investment banking expansion drive. They are motivated by the recognition that they cannot consider themselves global institutions without strong investment banks in the U. S., particularly at a time when remaining regulatory barriers separating commercial and investment banking are expected to crumble. To a greater or lesser extent, each is building its business with talent lured away from other firms, but Swiss Bank has also expanded through a major acquisition: On July 3, its takeover of S. G. Warburg, Britain's largest investment bank, became official, making newly christened S. B. C. Warburg the largest European investment bank. The merger will take effect in the U. S. when the Fed gives its O. K. Germany's Dresdner Bank has also joined the global free-for-all with its plan, announced last month, to buy Kleinwort Benson Group PLC, the British merchant bank, though its moves in the U. S. so far have been modest.

These institutions bring to the table the immense financial clout—Deutsche Bank and UBS both have triple-A ratings—of their parents. They are also aided by the weak dollar and strong relationships with U. S. subsidiaries of European multinationals.

Still, even the Europeans don't believe they will soon be able to rival powerhouses such as Goldman Sachs, Morgan Stanley, and Merrill Lynch. Few European institutions are household names in corporate America. Indeed, UBS bankers fret that prospects west of the Hudson often confuse the firm with the package delivery service with similar initials. Says Perrin Long, veteran Wall Street analyst at Brown Brothers Harriman & Co.: "No foreign securities firm from Europe or the Far East has made any headway in this country on their own." And he doubts that the people they're hiring will be as productive at foreign firms as they were at American ones.

Nonetheless, Wall Streeters are eyeing the foreigners, and now particularly Deutsche Bank, with vexation—though their displeasure stems more from Deutsche Bank's success in recruiting talent than in grabbing business. In April, Deutsche Bank lured away Edson Mitchell, Merrill's highly regarded debt capital markets chief, who in June recruited his successor, Grant Kvalheim. Deutsche Bank has also raided other foreign firms and U. S. commercial banks. In early May, as reported in the trade magazine *Investment Dealers' Digest*, a top S. G. Warburg merger-and-acquisition specialist lambasted senior Deutsche Bank officials for stealing its staff, at a meeting in Frankfurt. And Citibank is still miffed over Deutsche Bank's raid last year on a first-string foreign exchange team.

But according to Rolls, a former United Technologies Corp. chief financial officer, the New York operation is getting business as well as people. "We're clearly not going to match [the big Wall Street] firms when it comes to domestic equity deals," he says. "What we want is for them to participate with us in deals from abroad and let us participate in domestic deals."

Rolls points proudly to secondary and rights offerings for Daimler Benz as examples of Deutsche Bank's U. S. capabilities. While he acknowledges that the January, 1994, secondary offering was a slam dunk because Deutsche Banlit self already owned Daimler shares he says the July, 1994, rights offering dm onstrated the bank's ability to distrib securities in the U. S.

Among other things, says R Deutsche Bank aspires to become on the top global dealers in swaps and of the three leading foreign excha traders. For now, Rolls forswears in est in bridge loans, proprietary trad or high-yield underwriting. "We've too many other things to do," he sa While he doesn't rule out more spec ized acquisitions, he doubts Deuts Bank would buy a major U. S. full-s vice firm: "You're buying people. It tough thing to make it work."

Rolls acknowledges that until n Deutsche Bank hasn't exactly mo with great haste. Why not? "Here plus environment," he says coyly. R says he has no doubt that members Deutsche Bank's board in Frankf were opposed to expanding into inve ment banking to begin with. Big W Street compensation packages were tough sell. But he adds that Deuts Bank has now resolved to do whate it takes to snare top talent. By 20 thanks to revenues from the commer finance unit, Rolls says, Deutsche Ba U. S. unit should be generating pre income "well over" the $500 million previously expected to earn from vestment banking alone.

AN EDGE. Most analysts doubt th Deutsche Bank and the other Eu will make major inroads. They face f midable cultural and competitive obs cles in the U. S. New hires often ch at their employers' risk aversion a cumbersome audit and approval pro dures. Former Morgan Grenfell speci ists describe Deutsche Bank officials Frankfurt as "control freaks."

Further, while a triple-A rating p vides an edge in derivatives trans tions, where firms can be exposed i counterparty reneges, corporations, sa analyst Long, "go where they percei they can get the best advice, or [whe they] like certain individuals on a p sonal basis."

Close ties with U. S. arms of Europ an companies may not much help, ther. Chief financial officers at U. S. su sidiaries of European multinationa insist that they award business not the basis of national ties but to the i vestment bank that can deliver the be product at the most competitive pric

As global investment banking wa fare heats up, those prices will like become more competitive indeed.

By Phillip L. Zweig in New Yo

Eurobanks Take On Wall Street

WHAT'S GOING FOR THEM:

- Deep-pocketed parents
- Top credit ratings
- Weak dollar
- Close ties with European multinationals

WHAT'S GOING AGAINST THEM:

- Stiff competition from strongest U.S. Wall Street firms
- Weak U.S. securities distribution apparatus
- Cultural differences, such as aversion to risk and cumbersome controls
- Few relationships with U.S. companies

The 1995 Business Week Forum of Chief Financial Officers

Driving Superior Global Performance

This Isn't Kansas Anymore

"Growth is everywhere; there is no place to hide," says Dr. C.K. Prahalad, co-author, *Competing for the Future*. No place indeed. In less than a decade 3.5 billion people have joined the global economy. If you don't find the competition, they'll find you.

The convergence of political events and market developments has created enormous pressure for radical rethinking to remain competitive. At the fore in the drive for superior global performance is the CFO. More than 130 Chief Financial Officers of America's largest corporations convened at the fifth annual Business Week Forum of Chief Financial Officers to discuss how the new realities of the global economy are transforming the marketplace, their companies, and their roles as CFOs.

ison Lowery, esident, quality ngineering, IBM nd **David Smith**, ennessee Valley ty (right)

Monsanto CFO Bob Hoffman surveys the new market landscape, "Global competition has forced us to get a lot better at what we do, wherever we do it. New global competition forces us to respond faster to customer needs, and to know those needs better."

Survival, even for the most well-established companies, takes unprecedented innovation to adapt to the new rules of the game, discover new customer benefits, and stride well ahead of the evolution of new markets.

Take IBM. Big Blue dominated nearly every aspect of the computer industry until the early nineties, when it seemed the entire market changed overnight. Of course it hadn't, but few saw that changing competitive pressures, customer needs, and financial conditions were turning the industry upside down.

"Everyone got into trouble," says Prahalad, "not just IBM. We created well-oiled machines according to our industry's structure. The trouble came when industry structures changed."

"In 1993," says W. Wilson Lowery, vice-president, quality and reengineering, IBM, "we saw we had to reengineer all the major facets of IBM's business, including how we develop and deliver products, serve customers, and basically, the way we run our business."

Charles Van Sickle, group president, AT&T Capital Corporation

IBM's re-orientation is part of a sea-change in corporate strategy, a move away from divisional autonomy to shared capabilities in pursuit of global strategies. AT&T Capital is moving in the same direction. "It is essential," says Van Sickle, "that people at all levels in the new organization have enough flexibility to coordinate sales and service resources

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David Dungan, partner-in-charge, World Class Finance Practice, KPMG Peat Marwick LLP

across the boundaries of geography, time, different standards, and language."

So in place of segregated divisions, rank-conscious hierarchies, and non-communicative smokestack management, companies like AT&T Capital have embraced flexible matrix management—local management teams are responsible for customer-focused functions such as sales, marketing, and even product design. Meanwhile global efficiencies are pursued at the corporate level by functional groups, such as manufacturing, information technology, and R&D.

Changes like these have metamorphosed the role of the CFO. Stephen Bollenbach, senior vice-president and CFO, The Walt Disney Company, recalls, "During the sixties the CFO, as scorekeeper, was mainly concerned with accounting and budgets, but now critical functions like MIS, treasury, and even strategic planning and corporate strategy are a major part of the CFO portfolio."

Karl von der Heyden says the shift is only natural. "CFOs are more attuned with the whole corporation than any other executive. They have the broad corporate overview so critical in this era of reengineering and restructuring." He should know. After serving as CFO at RJR Nabisco, he assumed the CEO post at the troubl German behemoth, Metallgesellschaft.

Von der Heyden sees no end in sight for th continued ascent of the CFO, both individuall and as a group. But he points out that individu success depends on how well he/she can motiva the entire organization and represent the compa to the outside world.

CFOs Focus on Best Practices

Compete globally. Ignite growth. Control costs and cash flows—these are the pressures behin corporate transformation. Increasingly, that transformation is beginning in finance with a renewed focus on achieving best practices. Chi among the tools for transformation is benchmarking, which CFOs at The Business Week Forum ranked as their number-one challenge.

"With its involvement in all company function from product development to customer service finance is in the unique position to manage change across the organization," says David Dungan, partner-in-charge, World-Class Finan Practice, KPMG Peat Marwick LLP.

Robert Bahash, executive vice-president an CFO, The McGraw-Hill Companies, Inc., says McGraw-Hill is living proof. "Finance was among the first areas to make the move to the shared services environment. Our ongoing success shows that finance can be the catalyst f corporate-wide change." To adapt to the comp ny's renewed focus on the customer, finance reorganized by creating a shared-services facili organizing finance into a central unit, and creati teams to address each critical area. In addition resulting in a significant reduction in cost, the finance transformation signalled the company's new strategy.

For Sean Orr, senior vice-president of finan and CFO, Frito-Lay, Inc., benchmarking was th tool that enabled finance to work with business units to achieve stretch goals and stimulate the company's creativity. "By breaking away from old conventional standards and using appropria external benchmarks, we redefined what we consider outstanding performance."

Orr benchmarks extensively against Frito-Lay sister companies at PepsiCo, direct competitors and other consumer goods companies to measu performance, market share, and relative pricing In an industry satisfied with 2-3% pound grow per year, the company has achieved 12% poun growth. But that's not enough for Frito-Lay, which has set its long-term goal at 15%.

Business Doesn't Have To Be So Risky

Diego Wauters, president and CEO, AIG Combined Risks Limited

Risks have multiplied with opportunities as business continues to tear down international boundaries. But many companies have not changed or even evaluated their risk-management strategies to keep pace.

"The CEO and CFO must identify the major risks that could affect it outside the normal course of its business," says Diego Wauters, president and CEO, AIG Combined Risks, Ltd. "Yet it is my experience that companies hedge against risks to which they are not exposed, and remain exposed to the real risks." Wauters says that's partly because traditional risk-management strategies—creating a cash cushion by raising equity or hedging against risk with insurance—are outmoded.

To more effectively deal with a new generation of risks, AIG Combined Risks, Ltd., has created combined products. "Combined products respond to specific risk-management needs," says Wauters. Whether to guard against capacity shortages, reduce costs, or create tax and accounting benefits, the new method offers solutions by utilizing a combination of corporate finance, reinsurance, and derivative instruments.

"This new generation of products is basically trying to build a bridge between the insurance world and the financial world. We use the features of each to create a more efficient risk-management program for our clients."

· Bill Vareschi, vice-president, finance/ ıation systems, GE Aircraft Engines, marking is more than a matter of perfor-, it's a survival strategy. With Department ense spending and commercial aircraft ss both down 37% since 1991, GE ft's revenue has fallen 27%, and operating is down 33%. Meanwhile customer d for lower prices and increased reliability rced the industry to make dramatic vements in costs, cycle time, and quality, g GEAE to eliminate 20,000 jobs in less our years.

e started benchmarking against the business and decided to reduce cost 30% in three n order to maintain a healthy, competitive rise," says Vareschi. "I don't know how going to do it, but what's certain is finance a key role in identifying the problem and actively involved in solving it."

Other Green Stuff: onmental Issues and the om Line

gh sometimes regarded as a "soft" issue, nmental liability, ignored or mismanaged, can take a sharp bite out of the bottom line.

: Collett, nt and CEO, n & Robertson

"Some estimates of the liability run as high as 2.2 trillion," says Milliman & Robertson president and CEO Robert Collett. "But the insurance industry is obliged to cover only a small fraction of that figure. The remaining obligation belongs to ry." Whether you're a CFO or an investor, a significant threat to the bottom line.

d, in contrast to the anti-regulatory fever ng Congress, Corporate America be rned: there may be less regulatory relief g than you think.

hile retroactive liability, risk assessment, ational performance goals are key issues up ate, we won't see any resolution on these from this Congress," says Scott Vokey, an attorney with Preston Gates & Ellis in Seattle, and a specialist in environmental litigation.

But Vokey expects the next Congress to scale back existing regulatory requirements, delegate decision-making to the states, and subject regulations to cost-benefit analysis. The Administration's "Reinventing Regulation" program is like-minded. In the meantime, Vokey advises companies to look for creative solutions, like "brownfielding" —developing a site already industrialized in urban centers.

Jerry Martin, vice-president, environmental affairs for operations, The Dow Chemical Company, urges constructive vigilance. "Establish clear minimum standards and apply them globally; stay out of the ground; and watch your acquisitions and divestitures —if you buy the bag, there's no one left to hold it. Due diligence is as important as any other process in closing the deal."

"The SEC takes this very seriously. Up until recently, disclosure of environmental liability has often been ambiguous and incomplete at best," says Frederick Goss, assistant regional director, Pacific region, U.S. Securities and Exchange Commission.

Goss says, "The Staff of the SEC will continue to look closely at disclosure being made in this area and will ask companies to make changes to ensure that clear and complete information has been presented."

What Next After the Mexico Crisis?

Whether the Mexico crisis was an isolated case of bad economic policy, naive investors, or the bursting of the emerging-market bubble, its lessons must not be ignored. Luis Viada, regional head, Latin America, Standard & Poor's Ratings Group, says, "While Chiapas, devaluation, and NAFTA are uniquely Mexican events, they

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Quick Tally Survey Says . . .

Using **Quick Tally's** anonymous interactive polling system, delegates at **The 1995 Business Week Forum of Chief Financial Officers** weighed in on a host of issues affecting business:

Being a CFO at my firm used to be easier:	
Yes	**76%**
No	**24%**
Reengineering:	
Has given us a clear competitive advantage	**28%**
Has helped us somewhat	**47%**
Has cost us a ton of money for little gain	**9%**
Not sure if it's helping or hurting	**7%**
No reengineering done or planned	**8%**
The pace at which people can change:	
Is not a problem	**15%**
Slows us down somewhat	**40%**
Seriously inhibits change	**42%**
Prevents us from changing	**3%**
In the wake of the Mexican peso crisis, my enthusiasm for entering emerging markets has:	
Remained the same	**42%**
Become cautious optimism	**39%**
Has diminished significantly	**19%**
If I had $100 of my own money to invest, I would put it in:	
Latin America	**28%**
Eastern Europe/Russia	**6%**
Southeast Asia	**53%**
South Asia	**3%**
West & Japan only	**10%**

In-hall polling courtesy of Quick Tally, Beverly Hills, California.

The 1995 BusinessWeek Forum of Chief Financial Officers

represent larger global themes that we must analyze in all emerging markets."

Viada says regional and ethnic problems, dependence on foreign capital, and the social impacts of global competition can shake confidence in any emerging market, even amid economic reform and political liberalization. That's why Shafiq Islam, chief emerging markets strategist for Credit Suisse, urges investors to do their homework. "Emerging markets are no more risky than mature markets, provided investors get frequent, transparent information," says Islam. For example, prior to the December '94 peso devaluation Islam says no statistics on Mexico's reserves were available between February and October, 1994, yet investment continued. "Investors were too complacent; they went along with the herd, got away with it for a while, and then lost their shirts."

Still, Charles Griffin, president, Grupo Kodak de México, is optimistic about recovery, citing NAFTA, GATT, the OECD, and a broader manufacturing export base as stabilizers of the Mexican economy. "But most importantly," says Griffin, "political reform is past the point of no return. The Mexican government can't go back and undo the structural reforms of the last 6–8 years."

"We are still looking outward," asserts Jaime Zabludovsky, Mexico's Under Secretary for International Trade Negotiations. "We have demonstrated that we are committed to a market-oriented economy; that is the positive outcome of this crisis."

Alan Clutterbuck, director of the Argentina-based shoe and apparel maker, Alpargatas, says Mexico and other countries of the region will regain confidence by balancing accounts — reducing expenditures, hiking taxes — and staying the course. "The markets are still there," says Clutterbuck.

But in the meantime, Kevin Mulvaney, president, DRI/McGraw-Hill, advises companies to revisit key risk components in conjunction with their business activities overseas. "The ri of intra-regional trade, the fall of inflation, and growing government commitment to reform in Latin America still inspire optimism," says Mulvaney. "But low savings rates, poor educati and an entrenched culture of corruption prese substantial obstacles to further development."

Open For Business

Iowa Governor
Terry Branstad

Cost-conscious CFOs inquire within. Iowa has joined the heated contest between states to lure new business to their borders. Since 1983 Governor Terry Branstad has worked to diversify the state's economy and has ambitiously pursued new industries and jobs.

Governor Branstad proudly boasts that the state's success comes from a highly competitive combination — well-educated workforce, tax credits, low cost of living, high quality of life, and business-friendly state government. "We're letting business know that we're on the same team. If you're looking to expand your business, look at us. We can help you do that better than any state; we're the smart state for business."

Are You Wired for Change?

A one hundred-year-old company employs 17,0 workers to make batteries in 28 plants worldwi They sell them in 160 countries for $2 billion sales annually. Is the company global? No.

Klaus Besier, chief executive officer and president, SAP America, Inc.

"We were really multi-local," says Eveready Battery exec tive vice-president an CFO Daniel Corbin, J "Ten years ago we ha no global strategy." Bu then trade barriers fell new markets emerged competitors encroach upon the business, an Eveready, like thousands of other businesses, had no choice but to go global.

The difference is standard quality, uniform business processes, and a universal knack for meeting customer needs anywhere in the worl Integrated information and shared systems ma it possible.

"By creating integrated information systems companies can generate valuable knowledge, a then turn that knowledge into valuable produc and services," says Klaus Besier, CEO and pre dent SAP America, Inc. "But first, companies m ask themselves, 'What knowledge do we need? What knowledge do our customers need? and what knowledge will help us do our work better?'

After asking those questions, Eveready enlist SAP to find the answers. Now Eveready's glob strategy is supported by one information netwo delivering communications via e-mail, enabling sales-force automation, and putting informatio in the hands of those who need it, when they need it, wherever they are.

Written by Martin Keohan.

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ICIPAL BONDS

RANGE COUNTY DN'T SOUR THIS MARKET

where, munis are alive and well and selling briskly

a while, it looked e the municipal nd market's worst nare. One of the y's biggest coun- hich was borrow- 6 billion a year in uni market, de- bankruptcy on because of huge g losses in its ment portfolio. worse, now that unty's voters have down a sales tax se, the county default on $800 in debt starting 0.

oughout the Or- County (Calif.) de- numerous experts epeatedly predict- the cascading se- disturbing events would severely e the muni market: Investors flee the market, interest rates soar, and municipal finance would be the same. "Just like the earth- s in California, there will be after- that are more powerful than the itself," says James Spiotto, a se- s lawyer at Chapman & Cutler. xperts' forecasts could well prove te. But so far, with the exception county itself, the muni market has d with little more than a shrug.

SUPPLY. Muni investors seem cerned. According to AMG Data es, an Arcata (Calif.) firm that investment in mutual funds, total ment in California and national pal bond funds—with total assets 6 billion—has actually increased llion since Orange County filed nkruptcy. Muni funds are the ma- yers of tax-free issues.

ther, the rates municipalities pay row in the public market have ed. In early December, municipal were yielding an average rate of Now, thanks in part to interest- eclines, that's fallen to 6.27%. A n new municipal issues has kept

ILLUSTRATION BY DAVID SUTER, CHART BY LISA KNOLOSE BRAIMAN/BW

munis in short supply and well priced. Contends James J. Cooner, senior vice-president and head of the tax-exempt bond management division at Bank of New York: "I just don't see any repercussions of Orange County on the wider market."

The fact that many major municipal bond issues are insured certainly has eased the anxiety of some investors. But what's more telling is that, despite Orange County, demand for bond insurance has not increased this year, and the price of insurance has been constant.

Orange County, and to a lesser extent other California issuers, have had their troubles, of course. Muni funds boycotted OC's June 27 issue—$155 million in revenue bonds backed by a letter of credit—so completely that underwriter Goldman, Sachs & Co. was forced to raise the yield on the bonds half a percentage point. Even that was not enough: Eventually Goldman bought $130 million of the issue itself. Goldman confirms the move but says it sold them at cost over the next two days.

The wrath of the funds was to be expected. Many of them are battling for repayment of OC debt they were caught holding when the county declared bankruptcy. "Orange County didn't do the right thing by its bondholders, and I wasn't going to reward them," says Stephen C. Bauer, who manages $4 billion of tax-free investments for Seattle-based Safeco Mutual Funds and was one of those sitting out the sale. "We have a responsibility to make sure they do the right thing."

Their anger is likely to last, too. Orange County financial adviser Christopher Varelas called the boycott "a form of collusion like OPEC or the diamond cartel," but admitted OC would not return to the market anytime in the near future.

READY BUYERS. Other California issuers have been feeling the heat also. Alameda County was unable to sell an $85 million offering of revenue anticipation notes on June 27 and had to purchase a letter of credit before it could proceed with the deal. And Alameda and others have paid a premium of 10 to 25 basis points over the going market rate. MBIA Insurance Corp. of Armonk, N.Y., reports a 7% rise in the demand for insurance on long-term California bond issues as well.

But when Los Angeles County went to market earlier in June to finance a shocking $1.2 billion deficit, it found ready buyers nonetheless. "That shows you the power of the mutual funds," says Joan Payden, a Los Angeles-based bond investor.

Some experts continue to believe the future holds some fallout for the overall muni market. "Individuals are slow to react," says Jim Lynch, editor of New York-based *Lynch Municipal Bond Advisory*. "But what Orange County did was despicable, and people are not going to forget it." For now, though, the muni market is full of some very sunny bond issuers—even some from the Sunshine State.

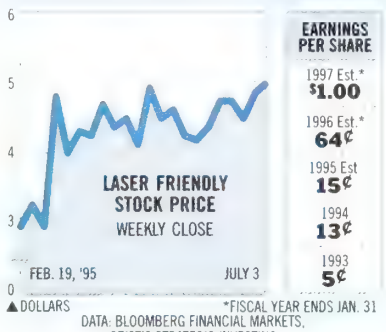
By Nanette Byrnes in Los Angeles

BY GENE G. MARCIAL

IS THIS PRINTER JUST THE TICKET?

When investment adviser Richard Geist saw Laser Friendly (LFIIF) flash on his computer screen three months ago amid a short list of undervalued stocks, he was skeptical: The issue traded on the Vancouver Stock Exchange, and Geist, like many other U.S. investors, tends to stay away from such stocks, partly because of the inadequacy of information disclosure in the Canadian market. But he took a closer look, since he knew some of the managers involved. Sure enough, Laser Friendly, a high-tech printer for specialty markets, including gaming and pharmaceuticals, looked enticing. (Laser expects to change its name soon to Gaming Lottery.)

LOOKING FOR A LOTTERY WIN



DATA: BLOOMBERG FINANCIAL MARKETS, GEIST'S STRATEGIC INVESTING

Following three years of strong growth, Laser "will double in size almost overnight," Geist thinks. The shares, which started trading on the NASDAQ on June 6, are at 4¾. Geist believes they should jump to 9 this year and 20 in the next two years.

Here's why: Laser is working on an acquisition that Geist figures will double revenues and earnings. It's buying "one of the largest U.S. suppliers of gaming products"—but management is keeping mum. Laser has secured $20 million in financing through a private placement of 5 million shares to fund the purchase.

Current shareholder equity of $30 million will jump to $55 million, figures Geist, and book value of $1.50 a share will increase to $2.20.

More important, Geist sees earnings soaring to 64¢ for the year ending Jan. 31, 1996, up from an estimated 38¢ before the acquisition. He thinks the buy will hike revenues to $87 million, up from an estimated $43 million. Competition in the business is stiff, so without this acquisition, Laser is not likely to be among the major players.

Geist reckons that Laser, which operates five printing plants in the U.S. and one in Canada, will continue buying companies. In the past year, Laser acquired Printing Associates, a major maker of online selection slips and terminal rolls for the U.S. lottery and pari-mutuel markets. Laser also acquired Specialty Manufacturing, a producer of break-open pull-tab tickets for bingo and charity gaming.

In late June, the company announced it had signed a contract with the New York State Lottery to supply tickets for a new game called Quick Draw. There will be a drawing every five minutes, so Geist expects ticket demand to be brisk. Laser thinks Quick Draw may eventually put lottery terminals in bars, hotels, and restaurants. In May, the company also won contracts from Kentucky Lottery and YIN 88 Gaming.

HIGH ROLLERS HEAP CHIPS ON AZTAR

The gambling world is abuzz with talk of deep-pocketed players such as Marvin Davis, Carl Icahn, Ron Perelman, and Sumner Redstone circling Las Vegas and Atlantic City looking at properties. Rumored to be a takeover target: Aztar (AZR), owner and operator of the Tropicana in Las Vegas and TropWorld in Atlantic City.

"This is the main reason [Bally Entertainment Chairman] Arthur Goldberg has been buying Aztar," says a Nevada money manager. He thinks Goldberg has accumulated a 4% stake. Most gaming stocks have been lackluster this year, but not Aztar: From 5¾ in January, it has risen to nearly 9¾.

Says Chuck DiRocco, editor of *Gaming Today*: "Where there's Goldberg, there's smoke." He recalls that Goldberg bought into Caesar's World months before it was acquired by ITT. DiRocco says Goldberg told him Aztar wasn't being run profitably—compared with Bally. Goldberg says he could do better.

Jason Adler of Smith Barney says the Tropicana will probably have a disappointing "breakeven or slightly negative cash flow" this year.

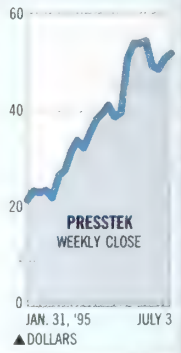
DiRocco thinks Goldberg will make a bid or else "stir the pot" for Perelman, Davis, or another player who may move in. He says Goldberg could either join or sell his shares to the bidder. Gol berg sees Aztar as a win-win situatio says DiRocco. He adds that the Jaf family of Chicago has a long-term lea on the land where Aztar sits. DiRoc suspects Goldberg has struck a de with the Jaffes. A Bally spokesman d clined to comment on the rumors ar on DiRocco's remarks. An Azt spokesman also declined comment.

NO FILM, MAYBE—BUT A BIG NEGATIVE

This outfit is no Microsoft, Intel, General Motors. Yet the stock is f pricier than these profitable giants: It trading at a disturbing 443 times 1 month earnings, 51 times book valu and 44 times sales. What is this unb lievable highflier? It's Presstek (PRST and if you've never heard of it, you' not alone. The Hudson (N.H.) compar has developed a proprietary imagin technology that speeds up printing b a process that eliminates the need f photographic film. Nevertheless, "this the most bizarre, ridiculously ove priced stock around," says Stephe Leeb, editor of *Personal Finance* Alexandria, Va., who predicts it w plunge from 51 to the upper teens.

While the product may have a b potential market, Leeb says "it isn nearly large enough or fast-growin enough to justify the current valuation." And there is rivalry, he warns, from a number of other players in the business with "less costly products with features that Presstek's process lacks."

THE SHORTS MAY WANT A CLOSEUP



DATA: BLOOMBERG FINANCIAL MARKET

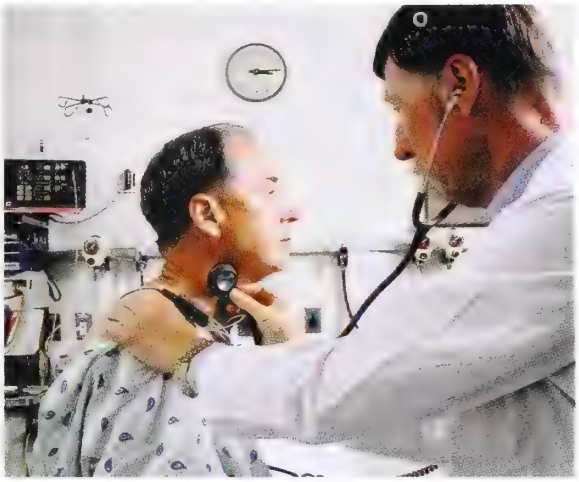
He insists that even if the rosiest assumptions about Presstek's growth are taken as gospel, the stock's valuation—currently $745 mi lion—is still "wholly unrealistic." H notes that trailing 12-month revenu are about $20 million. Earnings are 11 a share, and the most optimistic for cast for Presstek for 1995 is 30¢, v 1994's 13¢. A spokesman says the con pany doesn't comment on the valu tion of its stock.

H CARE

ERNATIONAL PAPER: IODEL PATIENT?

arison-shopping for care: Just what Dr. Gingrich ordered

en Linda Ricks had taract surgery in 991, the 53-year-old y at International Co. never gave the second thought. er her doctor , the company's surance would typ- k up 80%. Then in e company over- its medical plan, providers only a set when a second op- became imminent, prang into action. suaded her doctor ge only what the would cover and hospital to slash its hundreds of dollars. "When I schedule, I said, 'O. K., I'd bet- bargain shopper,'" says Ricks.



CLOSE EXAMINATION: *Patients now challenge costs*

Gingrich would love to see tients haggle as Ricks did. As se Speaker wrestles with how unchecked Medicare spending, ling up International Paper as a Gingrich told BUSINESS WEEK plan is "one of the most inter- products I've seen so far." It's ng considered as an option for when the GOP rolls out its Medi- orm package later this summer.

OPTIONS OPEN. What's espe- pealing to Gingrich is that the ional Paper plan motivates em- to shop for care but doesn't re- eir choices (table). Workers re- ll reimbursement if they see a who charges at or below the y's schedule of benefits. The re- ments are set at the median of rs' fees in a given area.

her enticing feature is that the courages employees from seek- ecessary care by setting steep bles and out-of-pocket maxi- In 1994, the median deductible viduals at large corporations was l the median out-of-pocket max- as $1,200, says a recent survey ltants A. Foster Higgins & Co. national Paper, however, an employee earning less than $25,000 a year would have an annual deductible of $325 and an out-of-pocket maximum of $1,500. Employees earning $50,000 and up pay $470 and $3,250, respectively. "We believe employees have to have enough of a financial stake to change behavior," says Jerry L. Bower, director of special projects at International Paper.

The company's new plan is slowing spending. After a year, medical costs for covered employees dropped 12.5%. Since then, costs have held fairly steady. The scheduled plan covers 15,854 employees, including all salaried workers, some hourly workers, and some retirees. The rest of International Paper's 53,000 employees, who are unionized and hourly workers, still use more traditional plans—which have seen steep jumps in spending.

Such results look good but may mask potential problems with quality, say some experts. Lonny Reisman, a practicing cardiologist and principal at benefit consultants William M. Mercer Inc., says the International Paper model operates more like managed care than a traditional indemnity plan, because it encourages employees to seek out the cheapest doctors. But unlike managed-care companies which pre-screen providers, he notes, International Paper doesn't "qualify" doctors.

EMERGENCY PROCEDURES. Instead, it makes available reams of survey data concerning doctors' credentials, most common procedures, and fees. Reisman's fear: "If employees just focus on cost they might not appreciate variations in outcomes." Bower says no one has figured out how to effectively compare doctors' performances and says the survey data help workers comparison-shop.

But shopping for care isn't something ill employees can readily do. Last fall, Lisa Tillotson, a secretary at International Paper's Vicksburg (Miss.) mill, was rushed to the emergency room while visiting in another state. "I did not shop," Tillotson says, "I was comatose." Cost for her 10-day stay in Rapides General Hospital in Alexandria, La.: $18,000.

Fortunately for Tillotson, the hospital had a contract with International Paper to discount its fees, and wrote off $5,000, leaving her to pay $980. But the company has contracts with only 180 hospitals nationwide to give flat rates or discounts. In all situations, the company pays just 65% of in-patient care and a scheduled rate for room and board.

Bower says International Paper wouldn't have to seek deals with hospitals if Gingrich adopted its approach—and forced all providers to disclose fees. Then, market forces could hold down costs, and patients would have the information they need to shop around. The challenge for reformers like Gingrich is to make sure the hunt for bargain-basement fees doesn't lead to bargain-basement care.

By Michele Galen in Purchase, N.Y., with Paul Magnusson in Washington

NEWT'S DARLING

House Speaker Gingrich is holding up International Paper's health plan as one option for Medicare reform. Here's how it stacks up:

ADVANTAGES	DISADVANTAGES
• Strong incentives for patients to shop for doctors and negotiate discounts	• No quality controls
• Freedom to choose own doctors	• Higher-than-average out-of-pocket costs and annual deductibles
• Protection from catastrophic illness	• Reimbursements can be based on outdated data for fees

SENIOR PLAYERS CHAMPIONSHIP

It was one of the most unique days in golf history. In fact, it almost WAS golf history. It certainly was a day the Stockton family always will remember.

Dave Stockton, the winner of 11 PGA TOUR and 11 Senior PGA TOUR titles (as of June 18), had just notched his eighth Senior TOUR crown by capturing the FORD SENIOR PLAYERS Championship on June 26, 1994. The win marked his second Senior TOUR major victory (he also claimed the SENIOR PLAYERS Championship in 1992) and equaled the number of major titles Stockton earned in 28 years on the PGA TOUR: the 1970 and 1976 PGA Championships.

1994 FORD SENIOR PLAYERS Championship winner Dave Stockton with caddie/son Ronnie.

He could have been basking in the spotlight of yet another victory won. But, instead, the 53-year-old Stockton was more interested in what was happening some 700 miles due east, in Hartford, CT. And he couldn't wait to get to the nearest television set.

At the Canon Greater Hartford Open, a PGA TOUR event, Dave Stockton, Jr. was very much in contention for his first TOUR title. Young Stockton, the winner of a pair of NIKE TOUR events in 1993 (the Connecticut Open and Hawkeye Open), had earned his PGA TOUR card for 1994 by finishing as co-medalist in the 1993 Qualifying Tournament.

Last June 26, Dave Jr. found himself part of a building storyline. Not only had father and son never won professional golf tournaments on the same day, you'd have to go all the way back to the 19th Century British Open, when the Morrises ("Old Tom" and "Young Tom") and Parks (Willie and Willie Jr.) were monopolizing that event, to find father-son combinations which won the same tournament.

Dave Stockton captured the 1974 Sammy Davis Jr. Greater Hartford Open at Wethersfield Country Club. Dave Stockton, Jr., who held the lead outright after 36 holes and shared it with David Frost through 54, was trying to win the Canon Greater Hartford Open at the TPC at River Highlands 20 years later.

Alas, it wasn't to be. The headline writers had to erase what already had been written after young Stockton went bogey-double bogey to fall from contention. Even birdies on the last two holes could only bring Dave Jr. to within three strokes of the winning Frost. With his father looking on via television from the press room at the TPC of Michigan, he finished in a four-way tie for third, behind Frost and runner-up Greg Norman. That placing was good for $57,600, the largest payday of his now-two-year PGA TOUR career.

So there was only one Stockton victory, but it added to an impressive list of winners of the FORD SENIOR PLAYERS Championship. Names like Palmer, Rodriguez, Player, Casper and Nicklaus already were there. And now Stockton's name appears twice; the only other two-time winner was Arnold Palmer in 1984-85, the second and third editions at Cleveland's Canterbury Country Club.

The TPC of Michigan, located in Dearborn and designed by Jack Nicklaus, has been home of the FORD SENIOR PLAYERS Championship since 1991, when its unlikely winner was Jim Albus, the one-time club pro who made his first Senior TOUR victory a big one by finishing three strokes in front of Bob Charles, Dave Hill and Charles Coody. Last year Albus became one of a record six senior players to better the million-dollar mark in season earnings (Stockton was on that list, also), as well as the first former club pro to do so.

The year before Albus won at the TPC of Michigan, Nicklaus set a standard for the ages at Dearborn Country Club. Jack's winning 261 total, which featured closing back-to-back 64s, was 27 strokes under par and six ahead of Lee Trevino. Third place was 11 strokes back.

im Colbert, who shared the third-
d lead with Rocky Thompson, cap-
l the 1993 event by one stroke over
nond Floyd. Colbert birdied three
e last six holes to edge Floyd and
his first Senior TOUR major.
ockton's first FORD SENIOR PLAY-
victory in 1992, also his maiden
or TOUR title, was by one stroke
J.C. Snead and Trevino. Stockton
from five back to win, with his
h to victory aided by Snead's misfor-
on the 72nd hole.
C. arrived at the 18th tee with a
stroke lead. But after pulling his tee
into the wetlands guarding the left
of the fairway, Snead double-bogeyed.
kton's birdie gave him the win.
Ie fashioned last year's triumph in
-running style, holding the lead by
ast three strokes from the second
d on. Stockton's final margin was six
Albus.
he golfing greats who went before
the precursors of the FORD SENIOR
YERS Championship in Ohio and
da.
s was Palmer, Miller Barber (the
gural event in 1983) and Chi Chi
iguez (1986) were victorious at
erbury. Gary Player was champion
987, the only year the tournament
played at Ponte Vedra Beach, FL's

A List of the Winners

Year	Winner	Course
1983	Miller Barber	Canterbury GC, Cleveland, OH
1984	Arnold Palmer	Canterbury GC, Cleveland, OH
1985	Arnold Palmer	Canterbury GC, Cleveland, OH
1986	Chi Chi Rodriguez	Canterbury GC, Cleveland, OH
1987	Gary Player	Sawgrass CC, Ponte Vedra, FL
1988	Billy Casper	TPC at Sawgrass (Valley Course) Ponte Vedra, FL
1989	Orville Moody	TPC at Sawgrass (Valley Course) Ponte Vedra, FL
1990	Jack Nicklaus	Dearborn CC, Dearborn, MI
1991	Jim Albus	TPC of Michigan, Dearborn, MI
1992	Dave Stockton	TPC of Michigan, Dearborn, MI
1993	Jim Colbert	TPC of Michigan, Dearborn, MI
1994	Dave Stockton	TPC of Michigan, Dearborn, MI
1995	?	TPC of Michigan, Dearborn, MI

Sawgrass Country Club. Sawgrass served as home of THE PLAYERS Championship from 1977-81.

Billy Casper (1988) and Orville Moody (1989) won over the TPC at Sawgrass Valley Course. The TPC at Sawgrass Stadium Course has served as THE PLAYERS Championship site each year since 1982.

The TPC of Michigan, situated as it is in Dearborn, is just 15 minutes from downtown Detroit. It enjoyed the fastest membership sign-up in Tournament Players Club network history.

Ford became title sponsor of the FORD SENIOR PLAYERS Championship in 1993. And what a logical sponsorship it was. After all, the Ford Motor Company's World Headquarters Building is just north of the TPC of Michigan. It can be seen from almost anywhere on the golf course.

The Tournament Players Club is, in turn, part of the Ford Motor Land Development Corporation's Fairlane Complex. The land on which the TPC now sits was purchased in 1915 by Henry Ford, whose hometown was Dearborn. So the ties to Ford Motor Company, while they took a few years to materialize, run deep.

In May, with one year remaining on its original three-year sponsorship agreement, Ford Motor Company announced it would remain title sponsor of the FORD SENIOR PLAYERS Championship through 1998.

"The FORD SENIOR PLAYERS Championship has become a key part of the Ford landscape in Dearborn," said Tom Wagner, Vice President, Ford Customer Communication and Satisfaction. "After two highly successful tournaments, we were pleased to sign on to continue the momentum of this great event."

FORD SENIOR PLAYERS Championship

Television Schedule

Thursday, July 13
First Round of Competition
ESPN - 3:00-5:00 p.m.
Eastern Time

Friday, July 14
Second Round of Competition
ESPN - 3:00-5:00 p.m.
Eastern Time

Saturday, July 15
Third Round of Competition
ABC - 3:00-4:30 p.m.
Eastern Time

Sunday, July 16
Final Round of Competition
ABC - 3:00-6:00 p.m.
Eastern Time

"We are pleased that Ford has agreed to continue its sponsorship of the FORD SENIOR PLAYERS Championship through 1998," Timothy W. Finchem, PGA TOUR Commissioner, said at the time. "Ford's significant support has enabled the tournament to contribute more than $1.6 million to Detroit area charities, and further demonstrates our resolve that charity is the real winner on the PGA TOUR."

EDITED BY EDWARD BAIG

THE DIMINISHING RETURNS OF DIVERSIFYING

By now, its importance has been drummed into you: Make sure your investment portfolio is suitably diversified, and familiarize yourself with an array of mutual funds, because they're a good way to spread your risk and extend your opportunities. But you may also quite rightly suspect that owning too many mutual funds that share the same investment objective may not be the wisest strategy. For one thing, a motley roster of individually managed funds is expensive to support, when a comparable index fund could do the same job at much lower cost.

So how many mutual funds should you carry within a given investment class? How many growth funds do you need before the benefits of diversification diminish? How many balanced or international funds? In short, how many is enough, and how much is too much?

LESS IS MORE. Money managers have been puzzling over the same questions. To get at the answers, managers at Prudential Diversified Investment Strategies fed a computer with five-year returns from randomly chosen mutual funds in four equity categories—growth, growth and income, international, and balanced funds—and compared the results against benchmark indexes. Their findings are that you probably should own more than one fund in each category but no more than three. "By the time you've got four funds, you're very highly correlated with whatever benchmark you're looking at," says Mark Stumpp, chief investment officer at PDI Strategies. At that point, he says: "You may as well have bought an index fund."

Many Wall Street sages are even more cautious. "You should probably not have much more than two," says Robert Markman of Markman Capital Management in Edina, Minn. Meanwhile, John Bogle, chairman of Vanguard Group, who has made a career out of advising investors not to attempt to beat the market, says those who nonetheless try should stick to one fund of any given type.

Indeed, as you pile on like-minded funds, there's a greater chance that the creative decisions each fund manager makes will cancel the others out. The pros may be the ones bumping heads, but you're the one who is going to feel it. Morningstar has estimates that fees for actively managed equity funds average 1.5% of assets. By contrast, fees for a typical index fund are 0.6%. And Vanguard's equity index fees average just 0.2%.

The best way to mitigate risk and optimize perf

is to choose funds that elated to one another. n consult Morningstar, *Line Mutual Fund* or a fund's annual re- to see how your s stack up. PDI Strate- nd, at least statistical- t growth-and-income which tend to be con- ve investments, are y to vary over time he Standard & Poor's ck index. On average, own just one growth- ome fund, you are al- n stat-speak, 94% cor- to the S&P 500. Hold nds, and the ratio to 97%. Your greatest to beat the market— et hammered, of —is to invest in funds

that bear little statistical relationship to a benchmark index.

Put another way, even if you're lucky enough to own four very different growth-and-income funds, you would still come close to mimicking the market, experts say. By unloading two or three of those funds, you would get more lift from your portfolio.

Less is also more when compiling a portfolio of growth funds that concentrate on midsize and large U.S. companies. If you own two growth funds that bear little resemblance to one another, you would have a fairly low 65% statistical correlation with the Russell 1000 Growth Stock Index. But if you randomly selected two more growth funds, the relation rises to 81%.

FOREIGN HIT. The story is much the same when you look into overseas funds. If you could select the single international fund with the smallest relationship to Morgan Stanley Capital International's Europe, Australia, and Far East stock index, you're still at the 75% correlation mark. Adding a second fund only makes it more likely that you'll move in lockstep with the market. Moreover, the higher expenses associated with international funds are difficult to overcome, says investment counselor Gary Greenbaum, president of Greenbaum & Associates in Oradell, N.J.

Yet balanced funds and asset-allocation funds, which blend equities, bonds, and cash, show little relationship with an underlying index. Choosing the two most dissimilar funds in this group would give a remote 44% correlation to a benchmark made up of three separate indexes: the S&P 500, the Lehman Brothers Aggregate Bond Index, and three-month U.S. Treasury bills. And if this portfolio added two other wayward funds, the relationship to the index would still be just 64%. One explanation, says Rich Whitney, a vice-president at T. Rowe Price Associates, is that these managers frequently juggle assets around, so their stock and bond selections are less likely to mirror a particular stock or bond index.

Ready to wean yourself away from your fund-collecting habit? Those who have hoarded funds of the same pedigree in the past should also be mindful of the tax consequences when they start to cut back.

BIT BY BIT. Most often, some of a fund's tax hit is taken annually, when capital gains and dividends are distributed to shareholders. If the fund has appreciated and you have been reinvesting distributions in new shares, your average cost-basis will be higher, which will ease the tax on any sale. Another tactic would be to use dollar-cost averaging to get out of a fund by unloading a set number of shares each month. In paring down your portfolio, your tax bite will be less if you drop those high-turnover funds that have been distributing capital gains every year, says Robert Willens, a tax specialist at Lehman Brothers.

Most of all, in trying to figure out how many mutual funds to hang on to, you shouldn't lose sight of your investment objectives, your tolerance for risk, and your sense of whether you think the market is going to head up or down, says Pamela Pearson, a Baldwin (N.Y.) financial planner. That's sound advice, and you can never have too much of that. *Jonathan Burton*

How Much Is too Much?

How many equity mutual funds should people hold of the same investment type before the benefits of diversification diminish? The figures below show the average statistical correlation between the number of funds in your portfolio and an underlying benchmark index. The higher the number, the greater the likelihood you'll mimic the market.

NUMBER OF FUNDS IN YOUR PORTFOLIO	TYPE OF FUND			
	GROWTH	GROWTH & INCOME	BALANCED	INTERNATIONAL
1	.91	.94	.91	.82
2	.93	.96	.95	.91
4	.95	.97	.96	.92
6	.95	.98	.96	.92
8	.95	.98	.97	.92
10	.99	.98	.97	.92

DATA: PRUDENTIAL DIVERSIFIED INVESTMENT STRATEGIES

INVESTING Your best chance to beat the market is a fund that doesn't correlate much with its benchmark index

HEAVY METALS COULD SINK YOUR PORTFOLIO

SMART MONEY

Back in 1980, David S. Robinson was convinced the U. S. economy was heading for disaster. So the Chicago newspaperman bought a 100-ounce silver bar for $5,350. As inflation soared, Robinson's prognosis seemed right on the mark. But by the time Robinson sold his treasure in a booming economy six years later, he recovered only $480 of his investment. "I apparently had more money than good sense," he moans.

Robinson caught a bug that's spreading again after a decade of dormancy. With a depressed dollar and a stock market that seems too good to be true, investor interest in owning gold, silver, platinum, and palladium is on the rise. Some investors see little downside risk in coins and bars—especially those made of gold. Analysts expect production to edge up only slightly, while demand, driven by Asian markets, rises about 4% a year. Yet as Robinson and others have sadly discovered, prices are influenced less by fundamentals than they are by war, hyperinflation, or other calamitous events. As a result, most financial experts warn investors to steer clear of precious metals. "Stay away!" advises John Markese of the American Association of Individual Investors, a nonprofit educational group.

GOLD BUST. For starters, precious metals pay no interest or dividends, and their value has failed to keep pace with stocks, money-market accounts, and other popular investments. Gold is down from a 1980 peak of $859 per ounce to about $389 and silver from $50 per ounce to $5.28. It is true that metal prices can be volatile, and investors who time their purchases and sales perfectly can make a fortune. But opportunities are rare, and those who wait for a once-in-a-lifetime gold rush can incur storage and insurance costs of nearly 1% a year. "It's got to be approached as a speculative play, by people with money to lose," says analyst Philip Klapwijk of Gold Fields Mineral Services in London.

Commissions and premiums also help to wipe away the shine. The few banks in the U. S. that offer the metals, including Wilmington Trust Co. of Delaware and Republic National Bank of New York, charge fees as high as 5% when you buy and 1% to 2% when you sell. Big private dealers and brokers offer similar deals. Markups are higher at local coin dealers, pawnshops, and other mom and pop outfits. Investors will "get ripped off, unless they know the dealer," says analyst Vahid Fathi of Kemper Securities Inc. in Chicago.

Indeed, although precious-metals profits may be scarce, there is certainly no shortage of swindlers in the marketplace. Every few years, it seems, a boiler-room operator springs up to collect money from unsuspecting individuals for gold and silver that never gets purchased or shipped. In one recent scheme, a Beverly Hills firm shut down after delivering just 27 of the 30,000 ounces of gold it owed unwitting investors who had been promised bargain-priced gold.

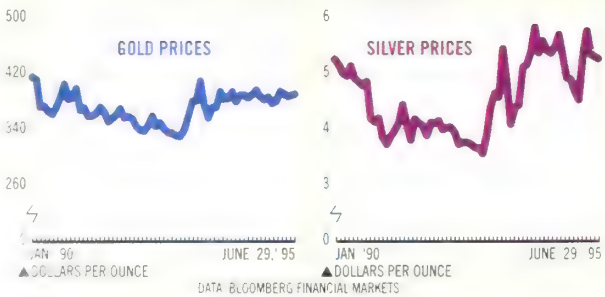
In another common scam, companies attempt to peddle "rare" coins that carry prices that are far above their value. Government watchdogs recently accused a New Jersey telemarketer of buying Russian gold coins for less than $100 each and selling them to unwary investors nearly $2,000 apiece. A nu ber of modern get-rich-qu schemes would make a m ieval alchemist blush. L year, a California high sch teacher pleaded guilty fraud charges after convi ing investors he could b "used" gold at low prices a resell it as "new."

SAFEST BETS. Those who tain an appetite for gold a silver in spite of such c tionary tales should consi money-saving alternatives accepting physical delivery the metal: certificate or sta ment accounts, say. Wilmi ton Trust pools investo cash to purchase 100-our gold bars, which are chea than the one-ounce co most popular with indivi als. The bars are stored the bank, and invest can buy or sell th stakes over the phon

For those with short-term view of t market, derivatives su as gold futures at N York's Commodity E change can provide cheap, albeit risky, b And for those invest who are seeking to versify their portfoli mining stocks could prov the answer. The safest b are large-capitalization p ducers such as Placer Do Inc. and American Barri Resources Corp., which c appreciate in value throu cost-cutting and producti growth even when gold p es are going nowhere. T big mining-stock mut funds, such as Van Eck sociates' $600 million Int national Investors Gold Fu provide a wide array of sues. Some funds even offe proxy for holding metals o right: The $125 million Sc der Gold Fund keeps much as one-fourth of its sets in bullion.

But Robinson, for one, is interested. Would he inv in metals again? "Not your life," he declares. J one little case of gold fe can provide a lifetime immunity. *Greg Bu*

Not Much Luster



DATA: BLOOMBERG FINANCIAL MARKETS

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PRECISION: *Surrounding tissue is left intact*

A NEW WEAPON TO FIGHT CANCER: COLD

The mere mention of doctors freezing patients so they can be preserved for decades until cures are found conjures up memories of some absurd movie thrillers. But freezing, or cryotherapy, is not entirely far-fetched or the stuff of science fiction.

Just last month, a Chicago surgeon used cryotherapy to freeze, and thereby destroy, two malignant tumors in a woman's breast. It was the first time cryotherapy has been used to treat breast cancer in a human being. The patient, who was administered a local anesthetic during surgery, was able to check out of the hospital a few hours after the operation, and required no medication for pain.

POWER TOOL: *A pen-size probe deep-freezes tumors*

Her doctors are optimistic that the frozen tumors will not return. "Of course using cryosurgery to treat breast cancer is still very much in the investigative stage," cautions Dr. Edgar Staren, surgical oncologist at Rush Presbyterian St. Luke's Medical Center in Chicago, who performed the 90-minute operation. "But I'm very enthusiastic about the ease of the procedure and its immense possibilities." Staren plans to freeze the tumors of three more breast cancer patients in coming weeks.

For decades, freezing has been an accepted method for obliterating unwanted cell growth on the skin, eyes, cervix, and other easy-to-reach parts of the body. Cryotherapy was used during the 1950s to rid patients of deep internal cancers as well.

MISFIRES. But cryotherapy equipment was primitive back then. "There were a lot of complications because the devices they used for visualization and freezing were not very accurate," says Dr. Andrew Von Eschenbach, chairman of the department of urology and a cryosurgeon at the University of Texas M. D. Anderson Cancer Center in Houston. "They ended up freezing more than just the tumor, which led to complications." As a result, cryotherapy was pushed aside in favor of more tractable cancer-killing strategies, such as chemicals and radiation, which were less likely to damage surrounding tissues.

HEALTH

Now, thanks to advances over the last ten years in ultrasound imaging technology, cryosurgery is making a comeback. For one thing, surgeons no longer have to cut a patient open to get a look at isolated parts of the body. Moreover, in 1989, Jeffrey K. Cohen, director of urology at Allegheny General Hospital in Pittsburgh, teamed with engineers at Cryomedical Sciences in Rockville, Md., to develop a precise freezing mechanism called the AccuProbe. The apparatus delivers liquid nitrogen at temperatures approaching minus 185 degrees Celsius, through probes the size of a fountain pen. AccuProbe has emerged as the leading surgical freezing device in U. S. hospitals: Some 120 are in use.

Cohen began performing cryosurgery in 1990 on men with prostate cancer who had failed all other forms of treatment, save for having their prostates surgically removed. The procedure, he says, has been so effective in eradicating patients' tumors without damaging surrounding tissue that he started performing cryosurgery on prostate cancer patients "right off the bat." Cohen reports that of the 118 prostate patients who underwent cryosurgery as their first and only form of treatment, 83% have no lingering evidence of the disease.

While cryosurgery is still most often used to combat prostate cancer, the therapy is being tried increasingly on other types of cancer. Doctors have performed cryosurgery on hundreds of liver and kidney cancer patients with promising results. Dr. Robert Kan radiologist who perfo cryosurgery on liver ca patients at Deaconess H pital in Boston, says procedure "is less of an sult to the body than ot cancer therapies, requ less recovery time in hospital, an kills the canc

Yet even in cases of p tate cancer, cryosurgery's perimental designation m it a last-resort treatm when all other therape options have been exhaus Insurance companies ar convinced yet, either. To insurance coverage has b spotty and handled on a c by-case basis.

Still, proponents of surg freezing insist the treatm will soon become a front defense in the fight aga cancer. Says Cohen: "C therapy is so effective th think you are really goin see it take off in the n couple of years, as a p ferred, first-choice car treatment." It might e make a nice movie wit happy ending. *Kate Mur*

WORTH NOTIN

■ **STARTING UP.** The lighthearted study course *Winning with Small Business* provid gentle entry for any in- timidated would-be entrepreneur. Offered by the nonprofit American Success Institute in Na tick, Mass., the course cludes a 350-page textbook, videotape, and other materials for $20 plus $6 for shipping. Ca 800 585-1300 to order.

■ **MUNI INFO.** How do m nicipal bonds your brok is pitching compare wit the deals institutions ar getting? *Nadel Muni Weekly Recap* includes analysis and a list of the top 25 new issues at a range of maturities. Pri $6. Call 212 799-6333 to order or for a free samp

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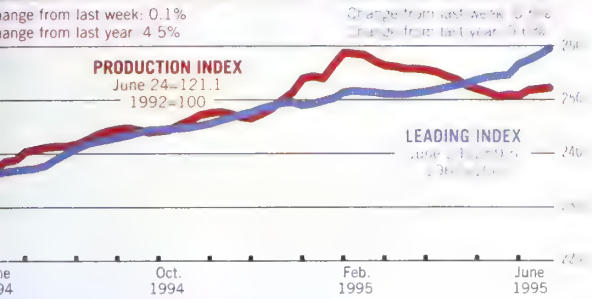

exes are 4-week moving averages

roduction index rose for the third consecutive week for the period ending 24. Before calculation of the four-week average, the index increased to from 120.8 the week before. The weekly gain mainly reflected a surge ctric power output.

eading index also advanced in the latest week. The unaveraged index o 259.2 from 257.8. Higher stock prices led the gain.

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PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (7/1) thous. of net tons	1,859	1,947#	–2.8
AUTOS (7/1) units	123,362	127,192r#	–2.9
TRUCKS (7/1) units	114,821	117,768r#	2.1
ELECTRIC POWER (7/1) millions of kilowatt-hrs.	NA	67,448#	NA
CRUDE-OIL REFINING (7/1) thous. of bbl./day	NA	14,737#	NA
COAL (6/24) thous. of net tons	20,064#	18,661	2.8
PAPERBOARD (6/24) thous. of tons	NA#	938.3	NA
PAPER (6/24) thous. of tons	NA#	813.0	NA
LUMBER (6/24) millions of ft.	423.7#	443.9	–12.4
RAIL FREIGHT (6/24) billions of ton-miles	23.7#	23.4	4.4

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Forest & Paper Association, WWPA[1], SFPA[2], Association of American Railroads

DING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
K PRICES (6/30) S&P 500	543.98	546.99	21.9
ORATE BOND YIELD, Aaa (6/30)	7.29%	7.27%	–10.1
STRIAL MATERIALS PRICES (6/30)	115.3	114.5	NA*
NESS FAILURES (6/23)	NA	322	NA
ESTATE LOANS (6/21) billions	$485.0	$483.8r	12.7
Y SUPPLY, M2 (6/19) billions	$3,660.7	$3,652.1r	2.6
AL CLAIMS, UNEMPLOYMENT (6/17) thous.	396	375	12.5

es: Center for International Business Cycle Research (CIBCR), Standard & Moody's, *Journal of Commerce* (index: 1990=100), Dun & Bradstreet (failures e companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on ss failures and real estate loans. *Historical data available from CIBCR

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (7/5) $/troy oz.	384.250	388.250	–0.6
STEEL SCRAP (7/3) #1 heavy, $/ton	140.50	140.50	26.0
COPPER (7/1) ¢/lb.	142.5	145.7	27.1
ALUMINUM (7/1) ¢/lb.	84.5	85.3	20.7
COTTON (7/1) strict low middling 1-1/16 in., ¢/lb.	105.38	106.66	44.9
OIL (7/3) $/bbl.	17.40	17.90	–8.9

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX

EREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
RAL FUNDS (7/3)	5.89%	5.94%	4.38%
MERCIAL PAPER (7/3) 3-month	5.94	5.93	4.78
IFICATES OF DEPOSIT (7/5) 3-month	5.88	5.90	4.78
MORTGAGE (6/30) 30-year	7.80	7.74	8.72
STABLE MORTGAGE (6/30) one-year	5.83	5.84	5.52
E (7/5)	9.00	9.00	7.25

es: Federal Reserve, HSH Associates, Reuters Holdings PLC

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (7/5)	84.96	85.12	98.73
GERMAN MARK (7/5)	1.38	1.40	1.57
BRITISH POUND (7/5)	1.59	1.57	1.54
FRENCH FRANC (7/5)	4.84	4.91	5.40
ITALIAN LIRA (7/5)	1622.9	1638.0	1565.4
CANADIAN DOLLAR (7/5)	1.37	1.38	1.39
MEXICAN PESO (7/5)[3]	6.240	6.290	3.395

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars

data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense ent. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

LLMENT CREDIT

y, July 10 ▶ Consumers probably about $8 billion to their debt levels . That would be down from the huge illion increase in April. Slower retail n May suggest that consumers have l to trim their borrowings.

UCER PRICE INDEX

day, July 13, 8:30 a.m. ▶ Producer of finished goods likely rose a mod- 2% in June after no change in May, ling to the median forecast of econo- surveyed by MMS International, one of cGraw-Hill Cos. Gasoline probably led crease. Excluding food and energy, roducer prices are expected to have risen by 0.3%, the same advance as in May.

CONSUMER PRICE INDEX

Friday, July, 14, 8:30 a.m. ▶ Consumer prices probably rose 0.3% in June, the same gain as in May, forecasts the MMS survey. Excluding food and energy, prices were probably also up 0.3%, up from a 0.2% rise in May. Apparel prices, which have not increased since January, may have bounced back a bit in June.

RETAIL SALES

Friday, July 14, 8:30 a.m. ▶ Retail sales probably increased by 0.5% in June. That's suggested by the weekly reports from retailers and by the rise in motor-vehicle sales. Store receipts edged up just 0.2% in May after falling 0.3% in April.

INDUSTRIAL PRODUCTION

Friday, July, 14, 9:15 a.m. ▶ Output at factories, mines, and utilities probably rose 0.1% in June, says the MMS survey. That's suggested by the lackluster data on industrial activity reported by the National Association of Purchasing Management. Output has fallen for three consecutive months, including a 0.2% decline in May. As a result, capacity is now much looser. Operating rates probably fell to 83.5% in June from 83.7% in May. In January, the rate was a high 85.5%.

Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A

ABB Asea Brown Boveri 66
Abbott Laboratories 77
Adolph Coors 8
Advanced Communications 38
Advanced Network & Services 38
A. Foster Higgins 91
American Airlines 54, 60
American Barrick Resources 96
American Express 34, 39
America Online 38
AMG Data Services 89
Amoco 48
AMR 54, 60
Apple Computer 42
Applied Informatics 68
AT&T 34, 44
Auto Strategies International 32

B

Bally Entertainment 90
Bank of New York 89
Bank of Tokyo 30
BBDO New York 74
Bear Stearns 54
Bechtel 48
Ben & Jerry's 12
Benedetto Gartland & Greene 83
Bevmark 8
BioComp Systems 68
Boeing 68
Bridgestone 35
Briggs & Stratton 54
British Petroleum 48
British Steel 35
Broadview Associates 38
Brown & Root 48
Brown Brothers Harriman 83

C

Caesar's World 90
Castle Rock Entertainment 16
CBS 16, 66
Chevron 48
Chicago Bulls 66
Chrysler 32
Ciba-Geigy 75
Citibank 68, 83
CNN 16
Cogentrix 44
Comcast Cable 10
Common Fund 42
Compaq 44, 60
CompuServe 38
Crédit Lyonnais 44
Crown Publishers 74
Cryomedical Sciences 98
CSF Holdings 42

D

Daimler Benz 83
Dataquest 60
Dean Witter 54
Dee's Home Shopping Network 44
Deere 68
Deutsche Bank 83
Deutsche Morgan Grenfell 83
Dow Chemical 77
Dresdner Bank 83
DRI/McGraw-Hill 32
Dun & Bradstreet 27
DuPont 77
Dynam Venture East 44

E

Eastman Chemical 68
Eastman Kodak 30, 33, 66
Electronic Data Systems 60
Enron 44
Ernst & Young 68
Exxon 48

F

Fidelity & Deposit 42
Fidelity Investments 82
First Capital Strategists 42
FMR 82
Ford 32, 60
Frigidaire 39
Fuji Photo Film 30, 33, 104
Fujitsu 68
Fuji Xerox 30

G

GE Capital 44
General Electric 44, 66, 68
General Motors 32
Global Synergy Associates 30
Gold Fields Mineral Services 96
Goldman Sachs 42, 53, 83, 89
Greenbaum & Associates 94
Groupe Bull 42
GTE 77
Gulf States Steel 35

H

Hertz 74
Hewitt Associates 34
Hitachi 68
HNC Software 68
Honda 32
Honeywell 54
Hong Kong Bank China Services 53
Hyatt Legal Plans 34

I

IBM 12, 39, 54, 66, 68
Image Alpha 12
IndusInd 44
Intelligent Machines 68
International Investors Gold Fund 96
International Paper 91
Internet Info 38
ITT 83, 90

J

Johnson Controls 60

K

Kemper Securities 96
Kleinwort Benson 83
Knoll Group 66

L

Lehman Brothers 94
LENS 66
Link Resources 39
Lipper Analytical Services 82
Lotus 12
LTV 35
Lukoil 48

M

Mark Goodson Productions 10
Markman Capital Management 94
MasterCard 68
Matsushita 68
MBIA Insurance 89
McDermott 48
McKinsey 44, 66
MCN 60
Merrill Lynch 83
Metdist 44
MGM 16
Microelectronics & Computer Technology 68
Microsoft 34, 39, 68
Midwest Legal Services 34
Mitsubishi 66, 68
Mitsubishi Materials 44
MMS International 101
Mobil 48, 54
Morgan Grenfell 53
Morgan Stanley 83, 94
Morningstar 94
Morrison-Knudsen 42
MovieFone 10

N

National Semiconductor 68
NationsBank 42
NaviSoft 38
NBC 16
NEC 18, 42
NETCOM 38
Netscape Communications 38
New Line Cinema 16
New York Knickerbockers 74
Nike 74
Nikko Securities 68
Nintendo 77
Nippon Telegraph & Telephone 71
Northern Telecom 44
Nucor 35

O

Odin 68
ODS Technology 10
Ohio Edison 75
Oil Capital 48
Optimax Systems 68

P

Pacific Telesis 54
Packard Bell 39, 42
Parameswara Holdings 44
Pavilion Technologies 68
PDI Strategies 94
PDVSA 53
Pennzoil 48
PepsiCo 34, 66, 74
Performance Research 74
Petroleum Finance 48
Pizza Hut 74
Placer Dome 96
Pre-Paid Legal Services 34
Presstek 90
PrimeStar Partners 38
Procter & Gamble 34, 54, 74
Prodigy 39
Protein Technologies
Prudential Insurance

Q

Quill 60

R

Reflection Technology 77
Republic National Bank 96
R.F. Stengel 42
Ricoh 68
RJR Nabisco 39
Robert Half International 54
Robert W. Baird 54

S

Safeco Mutual Funds
Salomon Brothers 34
San Antonio Spurs 74
Sanford C. Bernstein
Sanyo Electric 68
S.B.C. Warburg 83
Scott Paper 66
Scudder Gold Fund 9
Sears 34, 39, 60
Shanghai Electric & Engineering 66
Shiseido 30
Siemens 66
Silicon Valley Technology 44
Smith Barney 90
Smith Corona 42
Smith New Court 53
Specialty Manufacturing 90
Spry 38
Spyglass 38
Standard & Poor's 94
Standard Chartered Bank 44
Steiner Sports Marketing 74
Sumitomo Metal Industries 35
Swiss Bank 83

T

Tandem 44
Thermo King 66
Ticketmaster 12
Toshiba 68
Towers Perrin 60
Toyota 32
Trico Steel 35
T. Rowe Price 94
Turner Broadcasting System 16

U

Unilever 44
Union Bank of Switzerland 83
United Parcel Service 60
United Technologies 8

V

Van Eck Associates 96
Vanguard Group 94
Venture One 38

W

Walt Disney 74
Warner Bros. 74
Watson Wyatt 26
Western Union 60
Westinghouse 66
Wilmington Trust 96

X

Xerox 60

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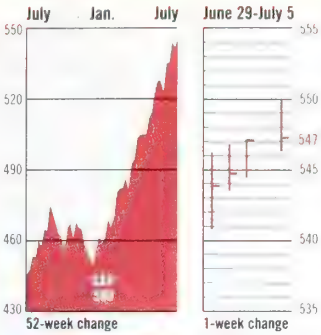
vestment Figures of the Week

ITARY

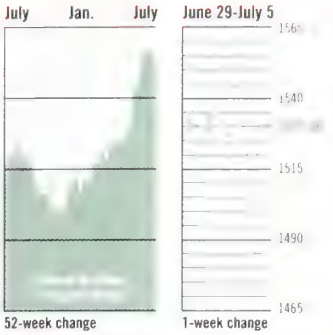
ntinued their winning
n the Dow Jones industrial
reaking easily through
level on July 5. Although
some rotation into cycli-
nology stocks still com-
ne action. The three top
g mutuals over the past
hown on this page, are all
s, and one of them is up
spite the rise in the Japa-
ket this week, the Nikkei
unable to stay above the
ark for very long. Look at
g mutual funds—those
t in Japan dominate.

STOCKS



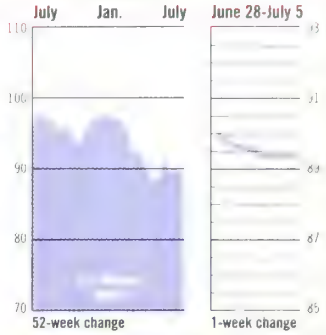
52-week change +22.7%
1-week change +0.5%

BONDS



52-week change +10.4%
1-week change −1.4%

THE DOLLAR



52-week change −7.7%
1-week change −0.7%

KET ANALYSIS

CKS	Latest	% change Week	% change 52-week
S INDUSTRIALS	4615.2	1.3	25.6
OMPANIES (S&P MidCap Index)	198.6	1.3	20.2
MPANIES (Russell 2000)	284.8	1.7	18.3
ANIES (Russell 3000)	311.9	0.7	21.8

STOCKS	Latest	% change (local currency) Week	% change (local currency) 52-week
FINANCIAL TIMES 100)	3394.9	3.4	15.2
KKEI INDEX)	14,830.4	1.5	−28.1
TSE COMPOSITE)	4553.3	0.5	12.6

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	5.67%	5.55%	4.34%
30-YEAR TREASURY BOND YIELD	6.60%	6.51%	7.59%
S&P 500 DIVIDEND YIELD	2.44%	2.45%	2.88%
S&P 500 PRICE/EARNINGS RATIO	16.9	16.8	19.5

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day moving average	487.7	486.2	Positive
Stocks above 200-day moving average	73.0%	71.0%	Negative
Speculative sentiment: Put/call ratio	0.68	0.76r	Neutral
Insider sentiment: Vickers sell/buy ratio	1.42	1.30	Positive

BLOOMBERG FINANCIAL MARKETS

STRY GROUPS

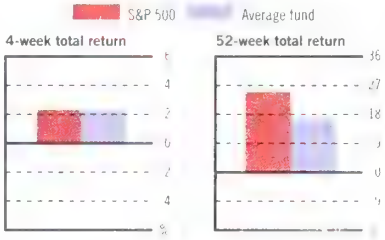
NTH LEADERS	% change 1-month	% change 12-month	Strongest stock in group	% change 1-month	% change 12-month	Price
ONDUCTORS	11.1	89.1	MOTOROLA	14.2	52.7	68½
ES	11.0	18.9	USAIR GROUP	29.7	77.4	11¾
CASTING	9.8	23.4	CAPITAL CITIES/ABC	12.7	48.6	106¼
	9.6	−9.0	NUCOR	14.1	−20.7	55½
T PRODUCTS	8.9	30.0	BOISE CASCADE	21.9	80.8	41⅛

NTH LAGGARDS	% change 1-month	% change 12-month	Weakest stock in group	% change 1-month	% change 12-month	Price
PLORATION AND PRODUCTION	−6.0	−8.2	BURLINGTON RESOURCES	−6.9	−10.8	37
NG MATERIALS	−5.3	6.8	MASCO	−5.8	−2.8	26⅜
S AND LOANS	−5.2	15.1	GREAT WESTERN FINANCIAL	−6.8	10.7	20⅝
LL EQUIPMENT AND SERVICES	−5.0	0.6	BAKER HUGHES	−10.4	−0.6	20⅜
UILDING	−4.2	11.5	KAUFMAN & BROAD HOME	−5.0	7.6	14⅛

UAL FUNDS

MORNINGSTAR INC.

S k total return	%	LAGGARDS Four-week total return	%
CAPITAL APPRECIATION	16.0	DFA JAPANESE SMALL COMPANY	−7.7
E PRICE SCIENCE & TECHNOLOGY	12.9	CAPSTONE NIKKO JAPAN	−6.3
LIER AGGRESSIVE SMALL CAP EQUITY	12.7	VANGUARD INTL. EQUITY INDEX PACIFIC	−6.3
total return	**%**	**52-week total return**	**%**
MAN COMMUNICATIONS & INFORM. A	106.7	AMERICAN HERITAGE	−31.8
NS OPPORTUNITY	85.9	JAPAN	−27.3
CE TECHNOLOGY A	80.6	MONITREND GOLD	−27.3



TIVE PORTFOLIOS

DRI McGRAW-HILL

ounts represent the
alue of $10,000
one year ago
ortfolio

ges indicate
total returns

U.S. stocks
$12,610
+0.54%

Treasury bonds
$12,080
−1.11%

Foreign stocks
$10,783
−0.21%

Money market fund
$10,528
+0.15%

Gold
$9,937
−1.17%

this page are as of market close Wednesday, July 5, 1995, unless otherwise indicat-
groups include S&P 500 companies only; performance and share prices are as of market close July 3. Mutual fund returns are as of June 30. Relative portfolios are valued as of July 4. A more detailed explanation of this page is available on request. r=revised NA=Not available

RAISING AMERICA'S LIVING STANDARDS

Where have all the wage gains gone? Four years into a recovery, with unemployment low, inflation under control, and corporate profits strong, workers at nearly all levels appear to be getting stiffed. One recent Labor Dept. study showed that real compensation has actually fallen for the past five years. Other studies show wages and benefits up, but less than in previous recoveries (page 54).

At least in the 1980s, stagnant pay could be blamed on low productivity and a high dollar, which hurt exports. Not anymore. Productivity is way up and the dollar is down, making the U. S. an export giant. But that hasn't translated into wage gains. While factory workers with high school educations took the brunt of downsizings in the 1980s, today college-educated professionals are getting hit. Starting salaries for college graduates have lagged behind inflation since 1991.

What gives? There are lots of reasons offered for the wage squeeze: international competition, technology, deregulation, the decline of unions, and cuts in the defense industry. Some people are even talking about America shifting from a consumer to a producer society, à la Japan.

A simpler truth is that America just may not be growing fast enough. The last time income rose was when economic growth was high enough to really tighten the labor market. From 1950 to 1973, the economy grew an average of 3.4% a year. Incomes rose steadily, and a whole generation did better than its parents. From 1973 to 1988, however, growth dropped to an average of 2.6% a year, and incomes grew sluggishly. From 1988 to 1994, economic growth dipped to 2.1%, and income growth deteriorated further.

True, the world is a lot different today than it was in '50s and '60s. But if history is any guide, an economy expa ing at 3% or more annually is more likely to generate gains in compensation than one limping along at 2%.

Unfortunately, the economic assumptions behind the balanced-budget proposals floating around Washington pr ise weak growth. The Republicans assume 2.3% growth the next seven years. President Clinton assumes 2.45%. W you plan for, you often get, and both proposals foresee ane expansion—rates that won't boost compensation.

There's a better way. America's current wave of ra productivity growth is no one-year wonder. It is time policymakers to consider quickening the pace of econo expansion. After years of weak growth, productivity shifted back to the 2% range common during the post-W War II period. With productivity so high, there's not m risk of inflation coming from the kind of fast growth that courages companies to hire, train, and pay for new employ

An impending balanced-budget agreement gives a f growth economy strategy even more cover. For the f time in 26 years, the U. S. is probably going to remove giant federal fiscal stimulus from the economy, giving savi and capital investment the chance to grow fast without in tion. It is high time the Federal Reserve acknowledged two new facts of economic life in America: Productivity is up, and the government deficit is about to go way do It's time to get growth back up to 3%-plus. To do otherw risks leaving all those goods and services sitting on shel left by a middle class that can't afford them.

THE NEW PROTECTIONISM: HOW TO FIGHT IT

A new form of protectionism is haunting the international community, and no independent multilateral trade organization, including the World Trade Organization, is set up to deal with it. That's clear from the bitter, long-fought battle between Washington and Tokyo over access to Japan's auto and auto-parts markets. It would be a tragedy if the world's largest trading nations didn't move swiftly to remedy this situation before serious harm is done to the global trading system. Not only does the U. S. continue to confront Japan over many issues, including film, aviation rights, and telecommunications, it is facing off against other Asian nations, as well (page 30).

The problem: Protectionism has evolved in recent years from a clear-cut system of tariffs into a more complex culture of mercantilism (invented in 16th century Europe, now popular in Asia). In past decades, opening markets was a simple matter of measuring tariffs, judging whether they were too high or not, and negotiating international agreements to lower them. The General Agreement on Tariffs & Trade was extremely successful at lowering tariffs for manufactured goods.

But the WTO is not equipped to handle invisible trade b riers that are the hallmark of mercantilistic protectioni such as the *keiretsu* form of interlocking directorships Japan, which has been shown to discriminate against eign investors and exporters.

The WTO must define its mandate in broader terms. Un Article 23, the WTO considers certain government aid to mestic companies a collusive trade practice if the action dercuts previous trade agreements. That means that bring Eastman Kodak Co.'s well-documented case of the Japan government's intervention in favor of rival Fuji Photo F Co. to the WTO could result in a win for the U. S.

But much more must be done to transform the WTO into effective trade-barrier-buster for the '90s. Europeans, v carped about the bilateral U. S.-Japanese auto negotiatio need to recognize that invisible trade barriers are the n frontier in protectionism. They should join with the U. S setting up mechanisms in the WTO to negotiate them out existence.

Don't you wish we could just do this to CFCs.

In a way we can—if we cool our buildings with natural gas.

Natural gas absorption cooling equipment cools with water, rather than with CFCs, which deplete the ozone layer.

It also has fewer moving parts than conventional cooling systems, which means maintenance costs are lower.

And, because it costs much less to operate, it cuts the energy costs of cooling—by up to 50%.

There's another big benefit, too. It saves electricity during the heat of the summer, when demand is at its highest.

As a result, we can help our cities avoid brownouts. And help reduce the need for power plants. Best of all, we can help America balance the use of its energy resources.

No doubt about it, natural gas is a high-tech, low-cost way to keep cool without CFCs.

It's a cool way to help save our ozone layer, too.

Clean, economical natural gas. Think what we'll save.

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The SGS-THOMSON Microelectronics Group provides Service and Technology throughout the world:

NA VS. AMERICA: NEW TENSIONS THREATEN BUSINESS

BusinessWeek

, 1995 A PUBLICATION OF THE McGRAW-HILL COMPANIES

TAURUS

emaking America's Best-Selling Car

PAGE 60

WE'RE MAKING
MULTIMEDIA COMMUNICATIONS
WORK HAND-IN-HAND.

How Obsessed Are Our Engineers With Safety? Let's Start With The Stereo.

One would expect a luxury car to list dual airbags, anti-lock brakes and

zones among its safety features. But a stereo? Not so outlandish when you consider

engineers designed the stereo in the Lexus ES 300. For one, they made it so the

can recede into the panel to create a dash with les

sions. They also placed the buttons where you'd expe

them. That way, changing a channel or adjusting the

won't distract you from the road. Extreme, yes. But t

of unflagging attention to detail is not the exception

It is the absolute rule. In fact, you would be hard-pr

find a single system within the ES 300 that was des

built without safety in mind. This holds true for features that are as seemingly in

as the headlights and even the walnut trim. If you would like to learn more, ple

800-USA-LEXUS. We'll put you in touch with a dealer who can show you a nu

these safety features. And perhaps even play one for you.

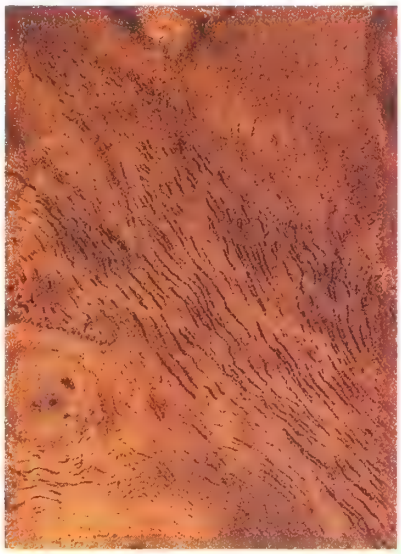
LEXU

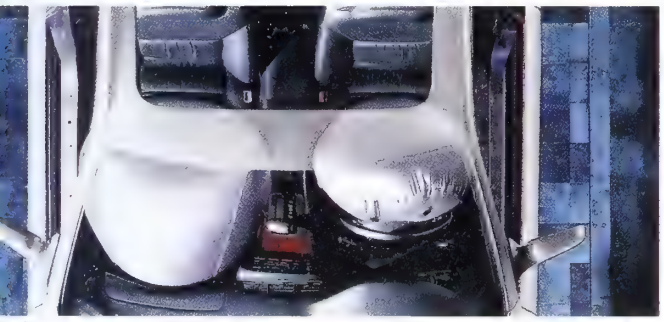
The Relentless Pursuit O

create a smoother and safer dash. the buttons can be pushed so they are flush against the surface of the control
r all, the stereo was designed to handle the subtle nuances of a quartet, as well as the not-so-subtle impact of an accident.

Our engineers decided on halogen projector beams. Drive in the rain and you'll see why.

Our engineers did what Mother Nature could not. They made it so the walnut trim resists splintering.





he dual airbags in the ES 300 are operating properly, self diagnostic tests are run on each of
sensors every time you start the car. You see, even our back up system has a back up system.

o toston, our airbag
s are gold plated.

The ES 300

ters and front passenger's airbags are a supplemental restraint only. For the dealer nearest you, call 800 872 5398.

COVER STO

TAURUS
The new Ford
Taurus is pack
with nifty ext
Now, the carm
is hoping the
can woo youn
drivers with a
for imports pa

Cover Story

60 THE SHAPE OF A NEW MACHINE
Since 1992, the Taurus has been the top-selling car in the U.S., accounting for nearly 20% of Ford's North American revenues. But now, after five years, nearly $3 billion, and a monumental team effort, a new Taurus is rolling off the assembly line. The result is a stylish, comfy car full of nifty new features. There's just one question: Is it too pricey for a family sedan?

66 U-TURN FOR THE CAMRY
Toyota is cutting out features to trim costs by as much as 20% and knock $1,000 off the sticker price

News: Analysis & Commentary

30 CHINA VS. AMERICA
Why the stand-off? The two countries haven't found a framework for dealing with each other in the post-cold-war era. Given how much they need each other, they had better find one—fast

34 COMMENTARY
Washington and Beijing: Dumb and dumber

36 IF THEY BALANCE THE BUDGET...
Short-term pain—job shrinkage, higher interest rates—could be offset by a gigantic national payoff later on

37 CALIFORNIA'S ELUSIVE RECOVERY
Job loss and a soft housing market still plague the Golden State

38 EXIT IN ORANGE COUNTY
Bondholders and creditors liked new CEO Bill Popejoy. But county supervisors wanted him gone

40 THE GREENS HAVE THE BLUES
Membership and fund-raising have become the latest endangered species

41 GENENTECH: HAS THE FAT LADY SUNG?
The ouster of CEO Raab may not be the end of its woes

42 NOT THE BEST YEARS OF ITS LIFE
Samuel Goldwyn Co. is for sale, offering a great library and little else

43 THE KING OF MODEMS HANGS UP
Dennis Hayes rode the PC wave to success, but rivals undercut him

44 IN BUSINESS THIS WEEK
Banks, Salomon, Archer Daniels, Service Corp., Gemini Consulting, J. Kermit Campbell, Ticketmaster

International Business

48 HONG KONG
Job anxiety is growing in Hong K as service-sector work starts to f to mainland China

49 COMMENTARY
U.S. software companies are war a "sinister" step by Tokyo's Minis Trade & Industry

50 MEXICO
Aeroméxico, once among Latin America's strongest airlines, is in steep dive—and looking for a buy

59 INTERNATIONAL OUTLOOK
With the LDP making a comeback Japan, it looks like out with the n in with the old

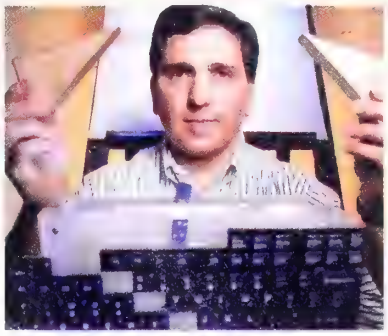
Economic Analysis

22 ECONOMIC VIEWPOINT
Becker: From Pretoria to Ontario bedtime for big government

26 ECONOMIC TRENDS
Smaller inheritances, the real valu of currencies, reading the Fed's m institutions as stockholders

CHINA VS. THE U.S.

They're embroiled in the most serious clash in years—and American companies may really feel the pain page 30



REBOOT CAMP

IBM's PC Co. has rounded a crucial bend, thanks to tighter operations page 68

MUTUAL ADMIRATION

Funds and 401(k) plans: Made for each other page 76

SURGICAL STRIKE

Patents in the O.R.? The AMA cries, "Unethical!" page 86

RETIREMENT TIPS

Making sure your nest egg lasts as long as you do page 88

NESS OUTLOOK
et the critics: The Fed made the play with its rate cut
il: A devaluation, but few tremors

ernment

HINGTON OUTLOOK
Big Business isn't getting behind Republicans' backlash over ozone

ormation Processing

INOLOGY AND YOU
ng your way onto the Net

ROGRESS AT IBM
tner lieutenant Rick Thoman is oting Big Blue's PC business and g his executives a crash course in agement

TERFLY FROM BUILDING BLOCKS
IBM developed its hottest new kPad subnotebook in record time

dia

IE TIME FOR CABLE
e customers, more cash, more ect on Wall Street—and gulation may be on the way

Finance

76 WHAT'S PUMPING UP MUTUAL FUNDS
Billions of 401(k) dollars are giving the market a boost—and some stability. But small outfits may get left behind

77 THE BULLS ARE REALLY BELLOWING
Rising technology stocks could help send the Dow even further skyward—and did someone say "Dow 7000"?

78 HOWARD HUGHES'S LAST BEQUEST
The heirs are trying to liquidate their land holdings

80 WHERE MEDICARE FEARS TO TREAD
An aging population is snapping up long-term-care policies

82 INSIDE WALL STREET
Blue chips set for a blue streak
Is this bank being cased?
Rent-Way is no couch potato

97 INVESTMENT FIGURES OF THE WEEK

Science & Technology

83 DEVELOPMENTS TO WATCH
Serendipity in the materials lab, "flying" cog trains, mighty morphin' voice simulation, and supercold superatoms

84 SUNUP AT LAST FOR SOLAR?
New "building-integrated" technologies are powering a surge in utilities' solar-energy investment

Legal Affairs

86 PATENT MEDICINE
Should surgical techniques be patented? Some say it would only drive up costs

Personal Business

88 RETIREMENT PLANNING
Making your savings last long enough
Is an annuity the right safe harbor?
Mortgage the house—with no payments

Features

6 UP FRONT
12 READERS REPORT
18 BOOKS
Levin: *Behind The Wheel at Chrysler: The Iacocca Legacy*
95 BUSINESS WEEK INDEX
96 INDEX TO COMPANIES
98 EDITORIALS
Bring cooler heads to the China table
Auto roulette at Ford

Up Front

EDITED BY LARRY LIGHT, WITH OLUWABUNMI SHABI

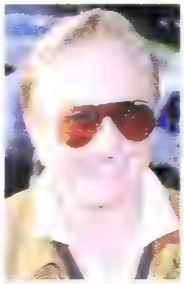
TALK SHOW "This moment offers us an opportunity to bi up our own wounds."

—President Bill Clinton, announcing full diplomatic recognition of Vietnam on July 11, two decades after the end of the war

WHEELER-DEALERS

PENNIES FROM A FIVE-AND-DIME CZAR?

IRATE INVESTORS planning to sue financier Meshulam Riklis over E-II Holdings will probably end up with far less than they seek. When Riklis controlled E-II, parent of luggage maker Samsonite, he moved millions from its coffers to prop up other ailing Riklis outfits—chiefly, five-and-dime-store chain McCrory. After E-II emerged from Chapter 11 in 1993, independent of Riklis and renamed Astrum, the court set up a trust to sue him on behalf of E-II bondholders for the lost money. Depending on estimates, claims against him run from $200 million to $900 million.



RIKLIS: *Not so flash now*

But bondholders and lawyers close to the situation doubt the one-time billionaire has the assets to repay even the lower figure. "We don't expect that much," says one. New York-based McCrory, Riklis' sole remaining major asset, is in bankruptcy itself. Riklis contends it was O.K. to make financial transfers within his own empire.

Riklis' lawyer in the McCrory case argues that the Astrum stock and notes that creditors got post-Chapter 11, then valued at 75¢ on the dollar, have appreciated and made them whole. Creditors say that's irrelevant—he wrongfully impaired E-II. Still, even if Riklis gives them zero, the trust has some $50 million to pay them. The bulk of it is from McCrory, settling a claim in the E-II bankruptcy.

TOURIST TRAP? *The real W*

SHOW BIZ

YOU COULD CALL IT 'CHECKPOINT MICKE'

A BERLIN WALL THEME PA in Florida? Some German e trepreneurs want to recrea a part of the cold war in t Sunshine State. They're ev planning to use sections of t real Wall on 20 acres ne Fort Lauderdale. For $20 head, visitors would s armed guards, watchtowe a Russian T-34 tank, and r enacted escapes. Or th could attempt their own e capes via hot-air balloon. V tually everything is bei shipped from Germany, exce for Russian-made guns, m easily bought in the U.S. T target opening date for t $30 million park is Nov. 1996, the seventh anniversa of the Wall's collapse.

The Berlin-based invest group, Berlin Wall Enterpr es, is raising the money wi $50,000 partnerships. Th won't disclose how much th have collected, other than million that already has be spent. They still are shoppi for property to build on.

Why not rebuild the W in Germany? Florida's yea round climate and hordes tourists make it a better loc tion, says Hans Michael Pe one of the 15 original inve tors. Besides, he admit some Germans aren't glad see an agonizing period their recent history recreate at home, especially for co mercial gain. *Gail DeGeor and Karen Lowry Miller*

TV TALK

'PLASMA' COULD BE SOME SCREEN GEM

THE FUTURE WAS FLICKERING financially last summer on TV flat-screen maker Plasmaco, until it got acquired for $1 million. The tiny Highland (N.Y.) outfit is now being courted by giant Far East companies wanting to forge a manufacturing alliance, says new CEO John Antrette. His Atlantic Venture Group was one of its buyers.

Why the interest? Plasmaco is one of several small American enterprises pioneering better methods of making flat-panel displays. Unlike others, Plasmaco's could be built 40 inches diagonally or more. And its pictures are as sharp as a liquid-crystal display's. Yet LCDs, which dominate the growing flat-panel market, aren't practical for screens larger than 20 inches.

NICE KITTY: *Plasma display*

Plasmaco, Northwood (Ohio)-based Photonics Imaging, and their brethren use "plasma" displays—which employ small glowing tubes of gas—for the big screens. Like the VCR and a lot of TV technology, plasma was invented in the U.S.—30 years ago at the University of Illinois. *Neil Gross and Robert A. Lemos*

THE LIST SPIN CITY

Spin-offs are a great way to bring forth hidden value. That's the conclusion of a study by two Penn State B-school profs, James Miles and Randall Woolridge. Why? A good division might be stifled under the leaden leadership of its parent, starved for capital and management focus. But once granted its freedom, profits and stock often zoom. This decade, the champ is packaging producer ACX Technologies, once part of the Adolph Coors beer empire.

TOP SPIN-OFFS OF THE 1990s

SPIN-OFF	PARENT	DATE	RETURN*
ACX TECHNOLOGIES	ADOLPH COORS	1992	71.4%
GARDNER DENVER MACHINERY	COOPER INDUSTRIES	1994	63.1
RALCORP	RALSTON PURINA	1994	34.7
INDRESCO	DRESSER INDUSTRIES	1992	28.2
MARRIOTT INTERNATIONAL	MARRIOTT	1993	21.9
DEAN WITTER DISCOVER	SEARS ROEBUCK	1993	21.5
LEHMAN BROTHERS	AMERICAN EXPRESS	1994	20.9
TRIPOS	EVANS & SUTHERLAND	1994	18.1

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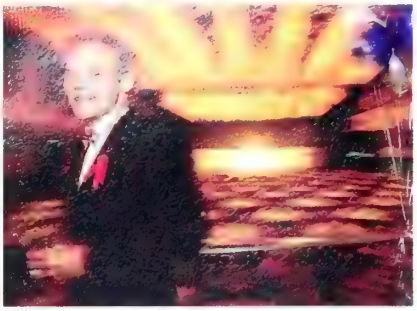
Up Front

BILL'S BUNCH

CARVILLE'S WISDOM FOR DEM 'WEENIES'



THE CAJUN: *"Less ambitious"*

WHAT'S THE RAGIN' CAJUN raging about these days? Newt Gingrich, Rush Limbaugh, and the GOP Right. Despite word on Washington's gossip circuit that James Carville has gone underground, the flamboyant Clinton adviser is writing a paperback designed to teach Democratic loyalists how to aggressively counter the conservatives. To Carville, the Democratic Party is "full of well-meaning weenies" who need to be taught how to fight.

Carville recently sent an emergency E-mail missive to a Democratic Web site, pleading for rhetorical ammunition. He wants to price his book at $10 or less, so all those unemployed former Democratic officeholders can afford it. The Random House-Simon & Schuster book is due out next January, just in time for the Presidential campaign.

But don't look for Carville to play the prominent role in Clinton's 1996 campaign that he did in 1992. Carville's hard-driving partisanship clashes with the moderate ways of Clinton's new political adviser, Republican Dick Morris. Plus, fatherhood is looming—Carville's wife, GOP-operative-turned-TV-talker Mary Matalin, is expecting. So Carville, 50, says he is "less focused and less ambitious." *Richard S. Dunham*

UNION DUES

LABOR PAINS AT GREENPEACE

GREENPEACE USA IS ALL FOR activism—except labor activism within its own walls. Or so say complaints pending before the National Labor Relations Board alleging that the environmental group tried to thwart a unionization effort.

At issue is a recent union vote at the small Greenpeace office in Hollywood, Fla., one of 22 local outreach centers across the country. Workers voted 4 to 2 June 14 to join the National Federation of Public & Private Employees, an AFL-CIO affiliate. In the course of organizing efforts, two employees were fired for pro-union organizing activities, and another was offered a promotion, in an unsuccessful bid to sway his vote, says the union.

DISUNION? *Greenpeaceniks*

Gale Babbitt, acting canvass director for the Greenpeace office, says she can't comment on the charges. "We support people's right to organize," she says. Three of the nine Greenpeace offices in Canada have been unionized. Three complaints against the environmental group before the Ontario Labor Relations Board were settled in 1993. *Gail DeGeorge*

DRAWN & QUARTERED

BALLPARK FIGURES

THE UMPS ARE BALKING

BASEBALL UMPIRES HAVE TO endure their share of beefs. Now, they've got one of their own: the unauthorized use of their photos on baseball cards, posters, and other sports merchandise. Unlike players, who can reap yearly about $80,000 apiece from licensing their likenesses for commercial use, Major League Baseball umps have struck out trying to get paid for the same thing.

SORE SPOT: *Cards*

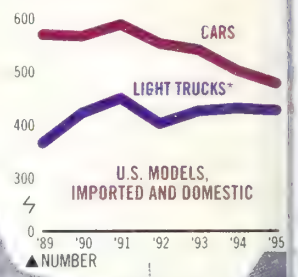
So 14 of the about 60 umps are suing seven makers of baseball paraphernalia, including Topps and Upp Deck, for making money their likenesses without pe mission. Umps say they're ten shown making controve sial calls because i dramatic. Check out the ca with a face-off between Ph adelphia Phillies' Len Dykstra a umpire Ang Hernandez, plaintiff in t suit.

Mostly, man facturers say t umpires are in dental to the products and th the umps' imag are often unreco nizable. Says Top spokesman Mar Appel of the feud: "With due respect to umpires, terms of cards, you don't ne them." *Linda Himelste*

THE BIG PICTURE

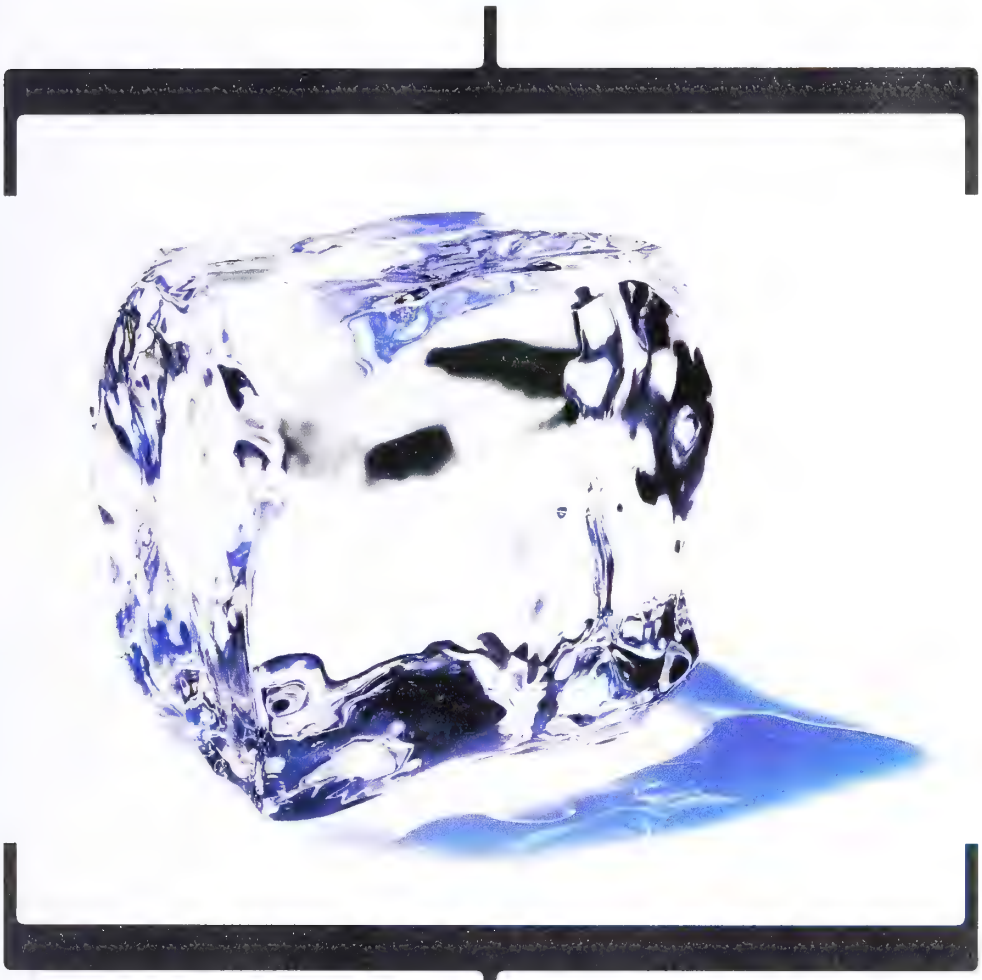
KEEP ON TRUCKIN'

Soon you may have as many choices in light-truck models as in cars. As buyers turn more to trucks, vehicle makers are trimming car lineups. In 1995, General Motors axed the Oldsmobile 98. In 1996, it will drop the Buick Roadmaster and Cadillac DeVille Concours.



FOOTNOTES Professional men buying portable PCs who are first-time buyers: 50%; women: 39%

"When my server overheats,
well, I've been known to show my temper."



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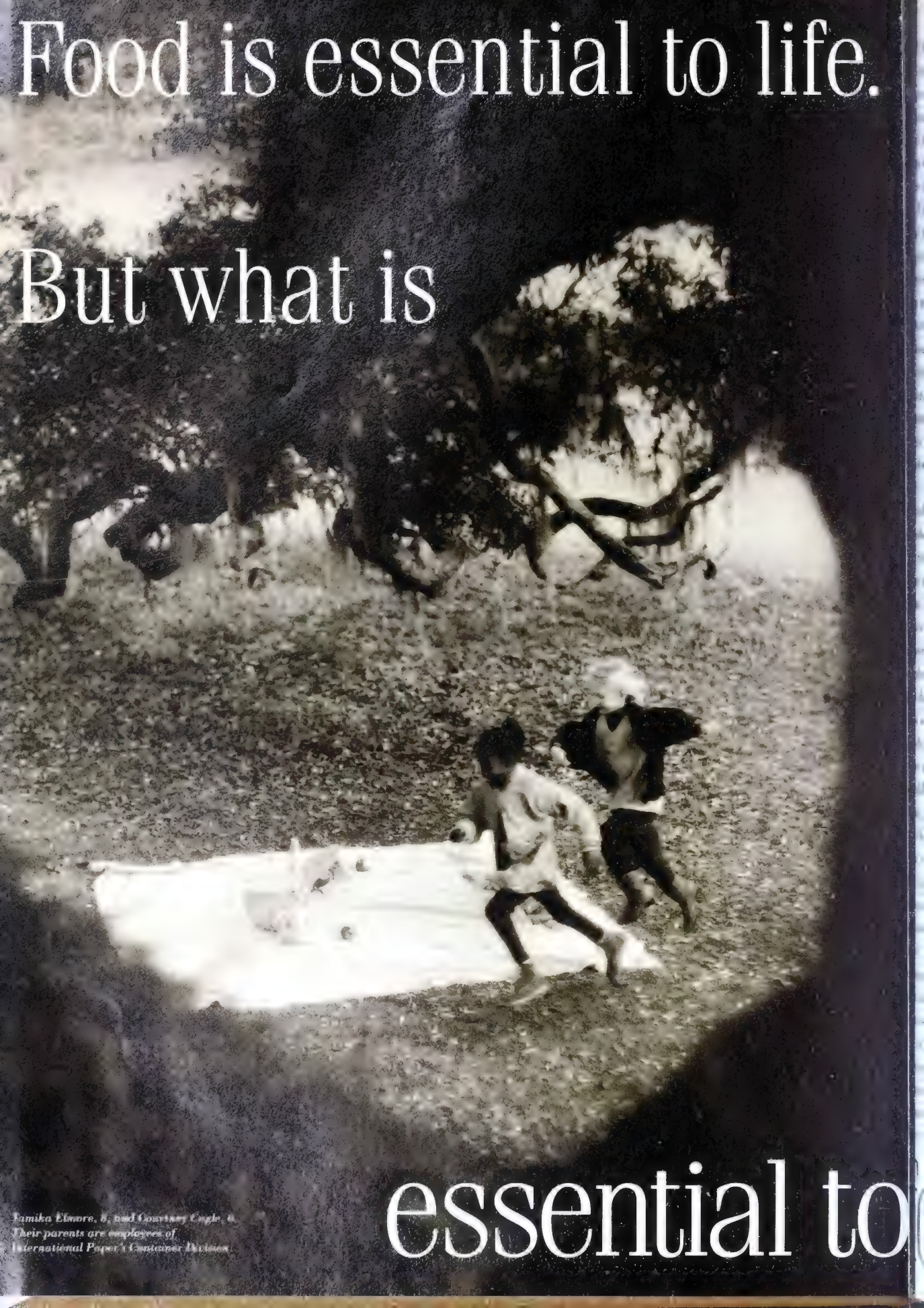
Food is essential to life.
But what is
essential to
Tamika Elmore, 8, and Courtney Cagle, 6.
Their parents are employees of
International Paper's Container Division.

AT ARE THE ISSUES?

ıst as our bodies need nour-
ent to make it from childhood
ıgh youth to adulthood, our
needs packaging to make it
the farm through the grocery
to our dining tables.

ithout the right packaging,
would be wasted. Indeed,
arts of the world lacking
isticated packaging technol-
more than 50% of the food is
very year. It either rots or is
ıged during shipping.

ortunately, we have the tech-
y to avoid these problems. For
nce, a paper package isn't just
made from paper of varying
nesses with graphics thrown
. Almost every package is a
able technological feat, each a
fic solution to a special problem.
ome packages endure fluctua-
in temperature and humidity,
hold ice while allowing the
r to drain, some withstand
raping stacking without being
ıed. You get the idea. Without
lifferent types of packaging,
wouldn't have access to as
fresh food. You also wouldn't
as much variety. Some foods
d become too expensive for
people to afford.

he abundance of packaging
raise the question: would we
etter off without it? The
er: not really. The practical
ion is a packaging material
not only fulfills all the
irements of getting food to us
lso is ecologically conscious,
s, renewable and recyclable.

t International Paper, we
rstand the need to find a
ce between preserving milk for
rrow's breakfast and preserving
orests for future generations.

ood?

WHAT WE ARE DOING.

International Paper invests millions every year developing innovations that keep food fresh and nutritious. Our Barrier-Pak® beverage cartons use a patented layering process of special papers and coatings that function as sophisticated barriers to hold in the fresh taste and flavor of juices. We're also working on new packaging systems that will keep milk fresh and nutritious even longer.

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Readers Report

GETTING SHREWDER ABOUT YOUR 401(k)

Although your feature, "The smart 401(k)" (Cover Story, July 3), was pretty much on the mark, I found the sample portfolios awfully conservative—particularly for the younger investor. Most investment experts believe that 401(k) investors in their 20s can afford the risk of having a minimum of 65% of their accounts in stock funds—with the most aggressive of them going as high as 90%. Even older investors can afford higher risk. If you have as little as seven years until you need your money, two-thirds should be in stock funds, with the rest in short-term investments.

Richard Sasanow
New York

Your story provided valuable information, but there were a few technical misstatements. If an employee has a vested balance of more than $3,500 in a 401(k) plan, he cannot be required to withdraw it upon termination of employment. Rather, the employee has the option of leaving his account in the plan for future distribution. Also, an employee may borrow only up to 50% of his vested account balance, not 50% of his account balance. For short-term employees, the difference may be substantial.

Kevin F. McCabe
Moyer & Ross Inc.
New York

What an interesting concept! I can opt out of my employer's 401(k) plan, enjoy my money now, and when I'm broke at retirement, sue my employer because they didn't hold a gun to my head and make me save. Has our litigation-crazy society really reached this level? If it has, it's time to pull the plug.

Alvin L. Thomas
Houston

TALLYING UP THE DARTS: WHAT COMPUTES AND WHAT DOESN'T

It appears that your article ("The Darts: Fear, loathing, and foam cup People, July 10) was largely based on formation provided by my oldest son Tom. As the story reported, Tom sued me and other family members, leging he was not treated fairly wh our family businesses were reorganized in the mid-1980s.

While privately held Dart Contain Corp. does not generally provide financial information to the public, the art contains figures that are grossly in er The following is accurate and verified formation: According to audited finan statements for the year ended Dec. 1994, the annual revenue from sales food-service products by DCC (and affiliated entities) was $430.7 milli not $1.2 billion. We to the writer before the s ry was finalized that correct figure was "les than $500 million."

According to recor from the General Serv es Administration, Da Container received pa ments on GSA contrac during 1992-94 of $4.5 m lion, as the writer was formed, not $181 million. Also, BUSINE WEEK's estimate of our family worth grossly inaccurate.

Contrary to the impression in the a ticle, DCC, which is a U.S. corporatio does pay its U.S. taxes. The implicati that the citizenship of family membe has the effect of reducing DCC's U. tax obligation is totally false.

William A. Da
Chairma
Dart Container Cor
Mason, Mic

Editor's Note: The higher revenue figu cited in the story reflected informatio gathered from Tom Dart, a major a counting firm report, as well as inte views with former company executiv and industry experts. The GSA figu

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ckers feed on parasites in the coats of animals like this impala. They do the impala a service since they rid the animal of irritating parasites.

There are many partnerships in the world of nature that give the impression of being rather unusual at first sight. But at a closer glance, they make a lot of sense, as it becomes quite clear that the partners can benefit each other.

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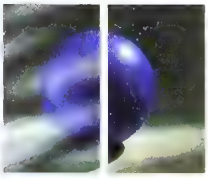

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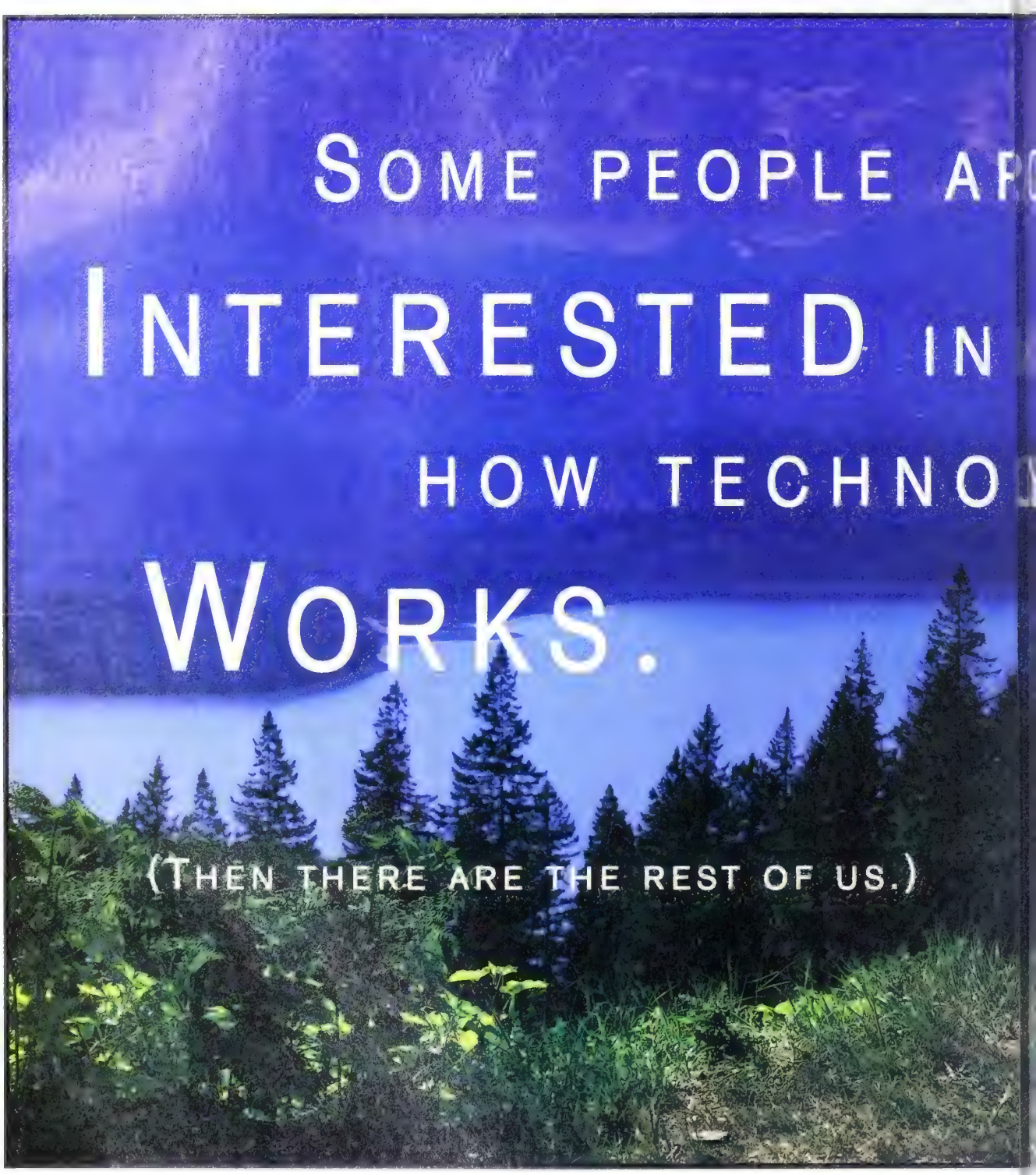

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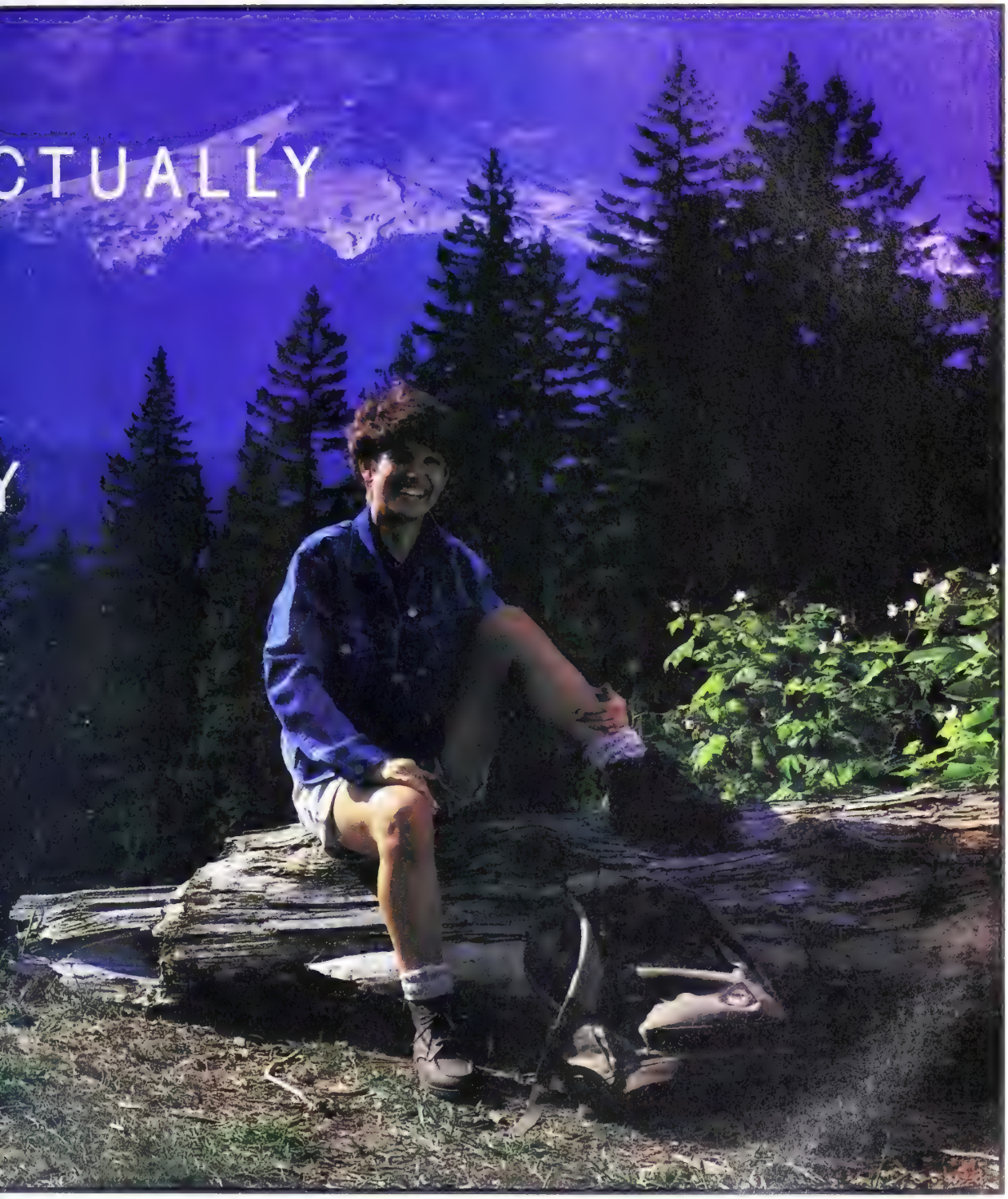
Shannon Anderson teleconferences from Everett, Washington. Which she finds easier than spending a minute longer in the office than she has to



Readers Report

cited in the story was based on information provided by agency staffers. BUSINESS WEEK now recognizes that the data provided were faulty. The Darts' objection to estimates of company sales and the family's total net worth were noted in the original story. Given the value of the publicly disclosed portion of the family's investment portfolio, BUSINESS WEEK does not believe the estimate of the family's worth is "grossly inaccurate." And while the article said that Ken and Bob Dart, by expatriating, avoided taxes, it never suggested that DCC did not pay all of its taxes.

THE FCC'S CALL ON 800 NUMBERS

A recent blurb on toll-free 800 numbers served well to alert readers to the transition from 800 to 888 toll-free numbers. But the piece ("800 numbers: Get 'em while you can," Up Front, July 3) may have left your readers with too bleak a picture of what's going on. There are numbers available for people who want them: almost 30,000 new toll-free numbers each week. The phone companies have them, and your readers can get them. Our action [to ration numbers] merely restored the industry to its planned usage rate and stopped the "run on the bank." The FCC, further, is not planning to tell the industry to "take back" anyone's 800 number. We are investigating allegations that some carriers are "warehousing" numbers for which they have no customers. That's not fair.

Kathleen M. H. Wallman
Chief, Common Carrier Bureau
Federal Communications Commission
Washington

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BEHIND THE WHEEL AT CHRYSLER
The Iacocca Legacy
By Doron P. Levin
Harcourt Brace • 354pp • $25

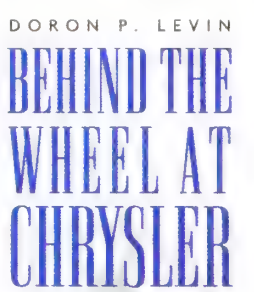
CHIPPING AWAY AT MOUNT IACOCCA

As the man who "saved" Chrysler, Lee A. Iacocca still enjoys a sterling image in most parts of the world. But around Detroit, that reputation is more than a little smudged: It's common knowledge that the cigar-chomping executive bungled his last few years at the carmaker's helm. He delayed spending the billions needed to design new cars and trucks until the company started sputtering on clunky, poor-quality products. He steered scarce resources to stock buybacks and an ill-considered diversification into corporate jets and financial services. And he waffled over retirement until the frustrated executives waiting to take over began to walk.

Doron Levin, a seasoned automotive journalist who is now a columnist at the *Detroit Free Press*, chronicles those blunders in his new book, *Behind the Wheel at Chrysler*. Levin portrays Iacocca as an egotistical, domineering executive whose flawed decisions nearly strangled the company he once rescued from bankruptcy. It is a well-researched, dispassionate account that goes a long way toward dismantling Iacocca's mythical stature, which began when he vaulted to prominence as the father of the first Ford Mustang and grew throughout the 1980s, as Chrysler thrived.

Although much of the territory Levin covers has been dealt with in newspaper and magazine reports, *Behind the Wheel* illuminates by dissecting Iacocca's record and placing it in historical perspective. With telling anecdotes, Levin shows how the auto industry changed radically during the 1980s and how Iacocca, "dazzled by the power, perks, and celebrity of his office," failed to keep pace. He skewers Iacocca's hypocrisy toward Japan, whose carmakers the Chrysler boss publicly lambasted while buying cars and components from them behind the scenes.

Levin's most gripping passages detail Iacocca's clashes with other big egos at Chrysler. Most notable is his slugfest with President Robert A. Lutz, who desperately wanted the chairman's job but who largely foiled his own chances by flaunting his disdain for the boss. Lutz, "who loved to mimic people he didn't like, mocked and derided Iacocca whenever he had a chance," writes Levin. "His performances were even known to spill over to the outer offices, where they were overheard by people who admired Iacocca."



A taste for high living at company expense rankled everyone from the federal watchdogs overseeing Chrysler's bailout to Iacocca's colleagues, Levin writes. To save money, the government forced the sale of all company planes in the early 1980s, a move Iacocca resisted. Later, when the cash started rolling in again, Chrysler purchased corporate-jet maker Gulfstream and had a sumptuously appointed G4 always at the chairman's disposal. More recently, when Chrysler was strapped for cash for new models, Iacocca was spending millions on a makeover of Chrysler's Waldorf-Astoria luxury suite. In the early '90s, the company purchased two of Iacocca's homes so the chief wouldn't have to bother selling them himself.

Levin makes a case that some of Iacocca's mistakes were the direct result of his greed. Much of Iacocca's compensation in his last years at Chrysler was in the form of stock and stock options. Thus he had a vested interest in stoc buybacks and other short-term gambit aimed at boosting the corporation share price. It's a cautionary tale abou what can happen when boards give to executives incentives to focus on stoc value rather than on the fundamental Now, Chrysler's directors are taking different view of Iacocca's stock option They're so miffed at his role in investo Kirk Kerkorian's botched takeover bi that they recently blocked him from ex ercising $31 million in options they ha earlier granted.

Unfortunately, like its subject, *Be hind the Wheel* suffers some debilitatin flaws. Early chapters that incorporat historical material tend to drag. Levi covers much well-trod territory, suc as Iacocca's 1978 firing from Ford Moto Co. And just as Iacocca's monologue tend to meander, Levin's tale sometime wanders off in confusing directions. Fo instance, a chapter on "The Making the L/H" begins with former Chrysle engineer Glenn Gardner's last-ditch e fort to design a family sedan to compet with the Ford Taurus and other rival beginning in 1989. Then, inexplicabl the reader is taken on a U-turn for discussion of an Iacocca purge of th board of directors.

There also are gaps in the accoun Iacocca's involvement in the Kerkoria takeover attempt gets short shrift: In hastily recast epilogue, the author goe over the basic events—Iacocca's par nership with a would-be raider intent o getting his hands on a chunk Chrysler's $7.3 billion cash hoard. And i this coda, Levin misses his chance t show how Iacocca, by engaging in suc a naked money-grab, has undermine his own carefully nurtured reputation

In fact, given Iacocca's recent stun bles, it's a wonder he has much of reputation left. No doubt Chrysler's cu rent rebound, after another near-brus with oblivion in the early 1990s, ex plains the continuing esteem in whic the former boss is held. But that succes is as much despite Iacocca as because him. Levin's timely, levelheaded revie of the record should prompt a mor critical assessment of Iacocca's legac as Chrysler's savior and as a role mod for executives everywhere.

BY DAVE WOODRUF

Woodruff has written extensively o Chrysler for BUSINESS WEEK.

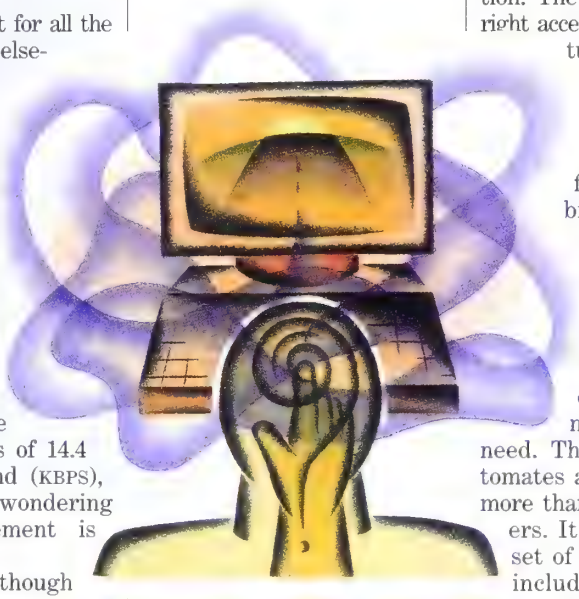
LEVIN'S MOST GRIPPING PASSAGES: IACOCCA'S CLASHES WITH OTHER BIG EGOS AT CHRYSLER

TEPHEN H. WILDSTROM

ASING YOUR WAY NTO THE NET

t a trade show a while back, I picked up a packet from Perfor- e Systems Internation- SI) that promised instant net access. The soft- —Internet Chameleon Netmanage Inc.—in- ed easily. But it took s of frustration and a le of calls to PSI's tech ort to get my account up working.

e moral is that for all the a—here and else- e—surround- he Internet, lly finding way onto information erhighway ins surpris- difficult. the sluggish ormance you n the graph- rich World Web, with rally available up connections of 14.4 its per second (KBPS), leave you wondering the excitement is .



O SPEED. Although software promises easier ss, the most valuable you can bring to an net encounter these is a sense of diminished ctations. Thus prepared, can choose from several ns. Most users would ably do best relying on nercial online services. igy Services Co. and rica Online Inc. offer ar deals. Both include browsers in their soft- . Both charge $9.95 per h for three hours and for each additional hour. big difference: AOL (the home of BUSINESS WEEK on- line) offers 28.8 KBPS service in most large U.S. cities, while Prodigy offers 14.4 or less. CompuServe Inc. has yet to fully integrate the Internet into its regular ser- vices, so Web browsing re- quires a separate call. The service costs $9.95 per month for three hours plus $2.50 per additional hour. Only about a dozen major cities now offer 28.8 connections.

If you're more adventur- ous, there are advantages to going with an Internet ser- vice provider. For one thing, it may be cheaper. As an ex- ample, PSI (800 827-7482) of- fers its InterRAMP service for $9.95 per hour plus $1.50 for each hour after the ninth. It may be easier to get 28.8 KBPS—or if you're really will- ing to try out the cutting edge, 64 KBPS digital ISDN service—through an Internet provider.

If you go this route, you'll usually have the freedom to choose your own software. For example, you might want to use Netscape Communica- tions' popular Web browser rather than the ones America Online or Prodigy build in. You may prefer Qualcomm's Eudora to an online service's clunky E-mail program. Or you might want to download software off the Net and ex- periment with Internet relay chat, a service that allows you to talk directly with oth- er users.

DIAL-ON-DEMAND. It's easy to find a service provider, from international companies such as PSI to any of the hundreds of local outfits that have sprung up. Local users groups are a good source of informa- tion. The trick is finding the right access software. One fea- ture you'll definitely want is dial-on-de- mand, which auto- matically calls your provider when you fire up your Web browser or other Internet software.

InternetSuite from Quarterdeck Corp. (310 392- 9851) is probably closest to the sort of software that nontechie consumers need. The $80 package au- tomates account setups with more than 50 service provid- ers. It comes with a solid set of Internet programs, including a good Web browser and tools for re- mote login and file transfer. It also allows you to add your own tools, such as the Netscape browser. You may still have to do a bit of fine- tuning, but the process is al- most as automated as set- ting up a CompuServe or AOL account.

Quarterdeck is leading the way toward an Internet that is no longer the province of programmers and engineers exclusively. As that thinking spreads, the reality of Net access may catch up with the hype.

BULLETIN BOARD

PRINTERS

INK-JETS FOR NETS

If you want a shared color printer for your work group or small-business network but don't want to spend a fortune, consider a high-end ink-jet unit. The Hewlett-Packard DeskJet 1600CM, which re- tails at just under $2,000, comes network-ready and supports both Windows and

Macintosh units under a va- riety of networking schemes. It prints text-only pages at up to nine per minute and color graphics at one to four pages per minute, depending on the quality selected. The DeskJet is slower than color lasers or printers that deposit dots of colored wax, but its price tag is at least $3,000 less than rivals such as the Tektronix Phaser 340.

MERCHANDISE

A SLOW CLIMB ONLINE

Retail sales through online services, the Internet, and multimedia CD-ROMS will take off, but not until after 1997, according to a study from For- rester Research Inc. (617 497-7090). Forrester predicts sales will rise from $240 mil- lion last year to $950 million in 1997, then soar to $6.9 bil- lion by 2000. The consultant blames half-hearted efforts by retailers. "You can't test out a new channel with one- tenth of your product line," says Forrester analyst Emily Nagle Green.

ILLUSTRATION BY THOM SEVELROD

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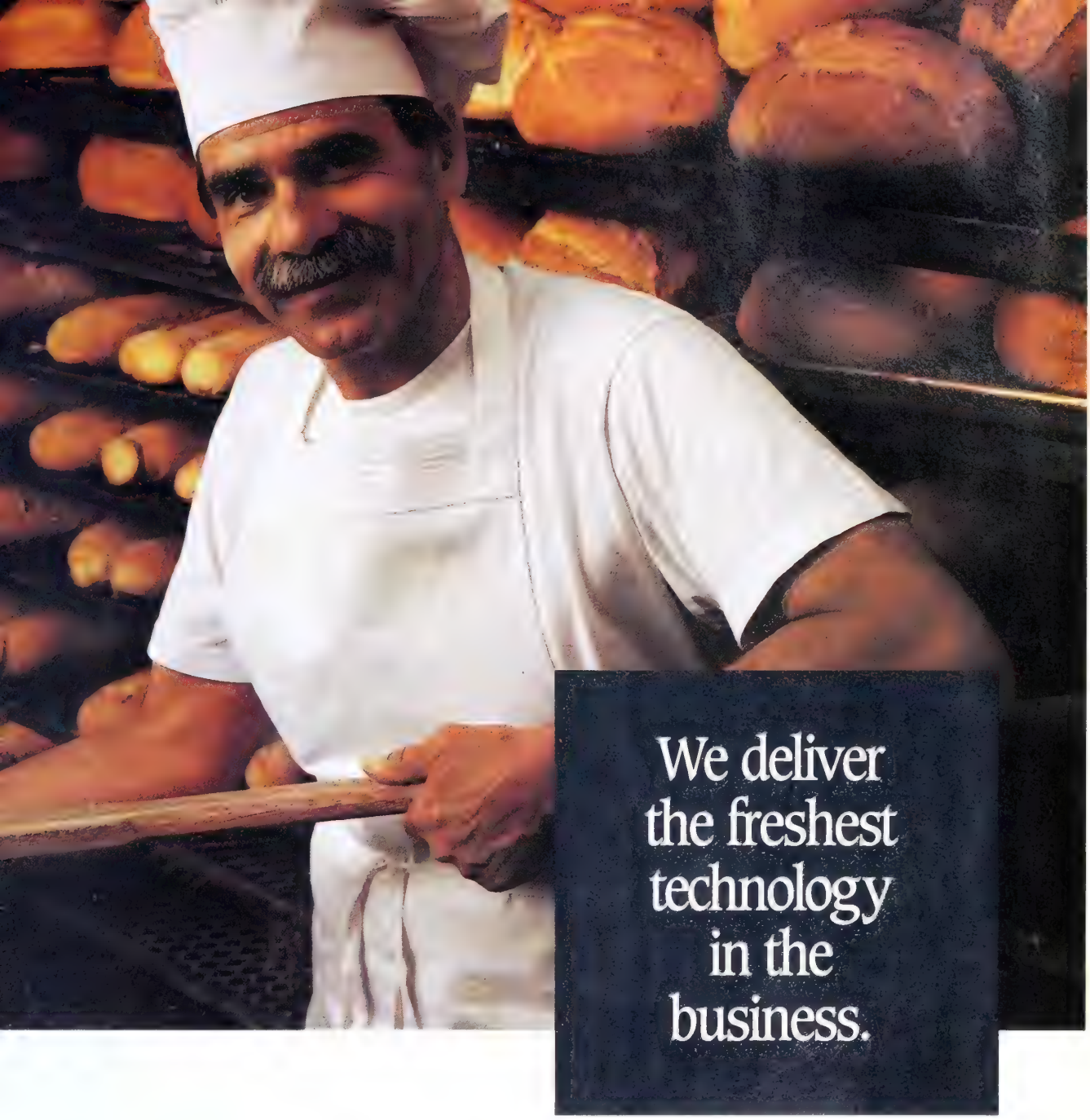
*I D C Research, May 1995 **Projected earnings based on a quote from Acer Chairman Stan Shih



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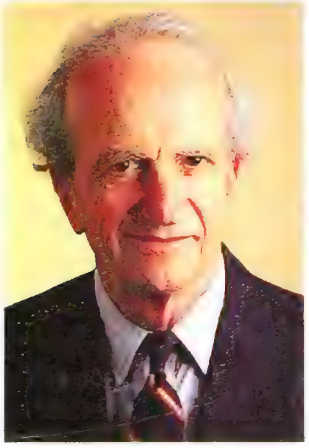
Fresh Ideas.
New Ways of Thinking.

BY GARY S. BECKER

BEDTIME FOR BIG GOVERNMENT



MANDATE: From Washington to Paris to Pretoria, voters are pressing for relief from social and economic engineering

After the overwhelming Republican victory last November, the pundits said that not much was going to be accomplished, that politicians' talk was a lot cheaper than actions, and that it would be, more or less, politics as usual. But the hardheaded experts were wrong.

The House and Senate have agreed on a plan to cut taxes over the next several years and propose to sharply limit spending on Medicare, Medicaid, welfare, and many other programs. A surprising number of senators and representatives are advocating either a much flatter income tax or, more radical still, the complete replacement of the income tax by a consumption tax. Congress is calling for systematic evaluation of the costs of major federal regulations and apparently will succeed in deregulating the telecommunication and banking industries, and in placing caps on punitive damages in civil cases.

Although the Republicans are taking the lead, many Democrats also sense that voters demand change. Some Democrats in Congress are supporting the Republican initiatives, and President Clinton's proposals to cut federal spending and taxes during the next 10 years are similar to what Congress is doing.

I have been skeptical that even the powerful voter mandate for change could overcome the dedicated opposition of groups with a vested interest in the status quo. After all, the convoluted tax code with its numerous loopholes and government programs that subsidize thousands of interest groups, from the elderly to the merchant marine, resulted from rough infighting during the past several decades. How could an election reverse what had evolved over time out of a complicated political process?

EASY VICTORIES. Some have attributed what is happening in the U. S. to the growing power of the religious right, with its conservative social and economic agenda. Others say Americans gave up on politicians and the big government they created because of repeated scandals. Still others claim the middle class and white males are finally rebelling against the social experimentation that began with Franklin D. Roosevelt's New Deal and culminated in Lyndon B. Johnson's Great Society.

However, explanations based on the religious right and other uniquely American developments cannot explain the successful attacks on big government in many other nations. The Progressive Conservative Party just w a resounding victory in the Canadian provin of Ontario, a traditional hotbed of liber thinking, even though the party was ridicul by the ruling liberal New Democratic Par as Republican wannabes. The French conse vative Jacques R. Chirac easily won the co test for President, a post the Socialists he for 14 years. A former socialist, Fernan Henrique Cardoso, used a largely marke oriented platform to gain a big victory in contest against a leftist opponent for the Br zilian presidency, while the Peronist Carl Saul Menem easily was reelected President Argentina after six years of freeing the ecc omy and maintaining strict control over inf tion and the printing of money.

COSTLY LESSON. The most impressive e dence of the reaction against big governme may be the sensible policies followed by N son R. Mandela in South Africa. Despite bei imprisoned for 27 years by an Afrikaner g ernment that discriminated outrageous against blacks, Mandela's program so far surprisingly pro-business. He apparently a preciates that the discrimination there w not due to capitalism but to government la designed to protect white workers agai competition from South African blacks.

Voters all over the world may have learn through 50 years of social and economic en neering, highlighted by the total collapse central planning and communism, that exte sive government spending and regulati heavily damage the economy and undermi values and morale. It may seem a bit surpr ing that it took half a century to learn t costly lesson. But the harm from big gove ment only slowly became apparent to t general public partly because voters had see through a smokescreen of rhetoric by tellectuals, politicians, and the media that r iculed opponents of big government as eith lacking in compassion or as tools of busine interests.

I am not yet ready to concede fully that skeptics were wrong about the likelihood major reductions in the role of government modern economies. But the trend of the p half-century toward relying on big gove ment to solve economic and social proble could be ending not only in the U. S. but many other nations as well. If this rever continues, I would be delighted to digest abundant portion of crow.

Gary S. Becker, the 1992 Nobel laureate, teaches at the University of Chicago and is a Fellow of the Hoover Institution

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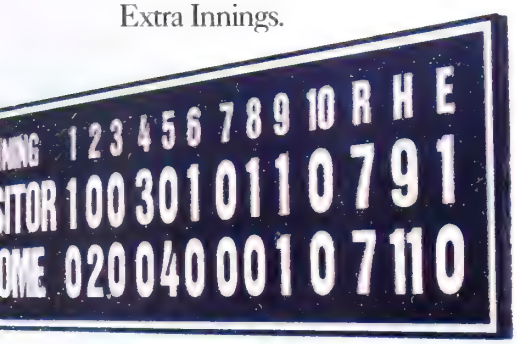

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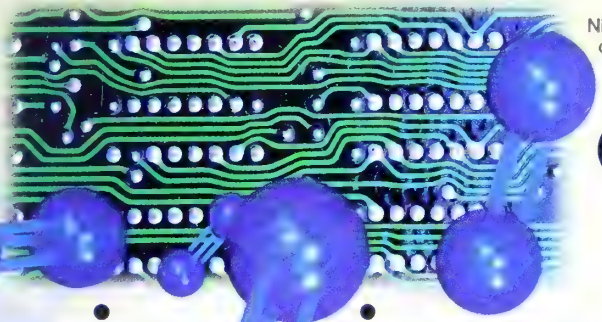

Nitrogen-inerted process for soldering circuit boards reduces defects, cuts costs, eliminates use of chlorofluorocarbons.

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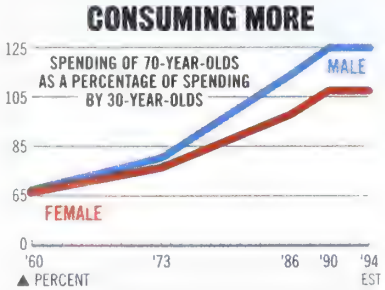
BY MIKE McNAMEE

LESS OF A THRILL FROM DAD'S WILL

Why bequests are getting smaller

That bumper sticker you see in Florida or Arizona—"I'm Spending My Children's Inheritance"—may be truer than you suspect. A shift since the 1960s in the way the elderly manage their resources has resulted in greater security and spending for older people but skimpier savings for the U.S. economy. As senior citizens depend more and more on annuities—income flows that last only as long as the owner survives—they're collecting less in assets that can be left to their heirs as bequests. And that has taken a big bite out of national savings, according to a recent study by Alan J. Auerbach of the University of California at Berkeley and other economists.

Common examples of annuities are Social Security benefits and pensions, which pay off during beneficiaries' lifetimes (with limited survivors' benefits in some cases). Pension benefits grew from



1.7% of gross domestic product in 1960 to 5.4% in 1990. But federal health programs may have done the most to accelerate the trend, say the economists. Medicare and Medicaid lifted federal transfers to the elderly from less than 1% of GDP in the mid-'50s to more than 9% today.

With more of their resources in the form of annuities, seniors can spend more (chart). "Annuities take away the risk that you'll outlive your accumulated wealth," explains Laurence J. Kotlikoff of Boston University, one of the study's authors. While the average 70-year-old in 1960 spent only about two-thirds as much as a 30-year-old did, by 1990 a man of 70 was spending one-quarter more than his 30-year-old grandson's contemporaries. Elderly women also boosted their consumption, though not so dramatically.

The downside? "We used to be able to count on unintended bequests—wealth left over at the end of life—to boost national savings," Kotlikoff says. Indeed, bequests might have been $136.3 billion, or 65.6%, greater in 1990 had the share of annuitized benefits remained at its 1960 level. The missing bequests would have almost doubled net national savings in 1990, the authors note. For those baby boomers counting on inheritances to make up for their own lax savings, the message of the bumper sticker is a warning.

THE REAL VALUE OF CURRENCIES

Buying power may be a poor index

When the dollar slumped against the yen this spring, debate was reignited in Washington and Tokyo over the question of what constituted the "correct" exchange rate. One touchstone popular with economists is purchasing power parity (PPP)—the rate that balances the cost of living in, say, Osaka and Chicago.

Trouble is, PPP hasn't worked well as a predictor. Most PPP calculations suggest that the dollar should be worth 110 to 120 yen—far stronger than its current 87-yen value. Even in simpler days, PPP may not have been reliable. When Harvard University economist Kenneth A. Froot and two co-authors examined English and Dutch grain, dairy, and silver prices over a 700-year span, they found that PPP was violated as often as maintained. Indeed, despite all the changes in trade and financial technology, "the volatility of deviations . . . has been no larger in the 20th century than it was in the 14th," the economists concluded.

READING THE FED'S MIND

The fallibility of the futures market

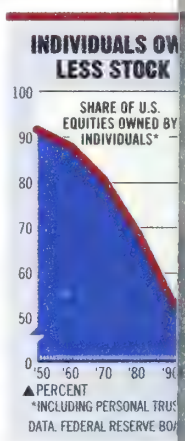
Futures markets do a good job of predicting what the Federal Reserve will do—when the forecast is clear. But they may have trouble calling the turning points in monetary policy, say John B. Carlson and Jean M. McIntire, writing in the Federal Reser Bank of Cleveland's *Econom Commentary*.

Trading in futures on the fede funds rate—the interest rate used the Fed as a policy lever—gives a lo at policy moves the markets expect ov the next six months. In January, 19 before the Fed began a series of ra hikes, futures prices predicted a mod half-point rise. The Fed surprised tra ers, boosting the rate by 1.25 perce age points by midyear. Thereafter, fo casts held up for a while—ur December, 1994, when futures pric predicted a continued stream of ra hikes, which the Fed didn't deliv More recently, though, futures trad got it right: They were predicting fall rates even before the Fed cut rates July 6.

AS INSTITUTIONS BUY UP STOCK . . .

. . . U.S. managers better watch o

In 1994, the proportion of shar owned by individuals reached a lo water mark of 50%, as pension fun mutual funds, insurance companies, a other bodies stepped up their inve ment in the U.S. stock market. Cre ing institutionalization of the nation's share ownership has many potentially troubling implications, says a Harvard economist, Benjamin M. Friedman, in a recent study.



For one thing, with investment decision-making in fewer hands, certain worthwhile new ventures may find themselves deprived of capital. The concentration ownership may also have increased market's volatility.

But Friedman points to one positi Institutional owners have been able play a big role in punishing and rewa ing corporate managers, banding toge er in a way individual investors co not. Thus, the dominance of large ov ers in the U.S. stock market "has already given the traditional fiction of sponsibility in corporate governa much more factual content than u to be the norm."

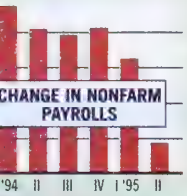
AMES C. COOPER & KATHLEEN MADIGAN

ORGET THE CRITICS: HE FED MADE THE RIGHT PLAY

U.S. ECONOMY

Did the Federal Reserve jump the gun when it lowered est rates by a quarter point at its July 6 policy ting? If the Fed had known prior to its powwow June payrolls had risen strongly and that the job- rate had fallen—as was reported the following ning—would a rate cut aimed at bolstering a sag- economy still have seemed justified?

not, the only other explanation would be that the succumbed to political and market pressure. The kets had anticipated a rate cut for weeks. Not giv- t to them might have reversed the recent rallies, cially in bonds, thus thwarting gains in housing and pening economic prospects generally.



Also, Fed Chairman Alan Greenspan, up for reappointment next March, must go to Capitol Hill on July 19 to make his semiannual defense of monetary policy. That testimony will come at a time when economic growth looks awful and after Clinton-appointed Vice-Chairman Alan Blinder has strongly hinted that the economy needs lower rates.

deed, not only is second-quarter growth in real s domestic product due for a poor showing when Commerce Dept. issues its report on July 28, but Fed also is well aware that first-quarter economic rth will look decidedly weaker when Commerce es sweeping changes to GDP in December.

mmerce will shift to a new type of GDP measure- t that will correct an overstatement of recent rth in many sectors, especially output of computers related equipment. Based on current data, first- ter growth would be 1.7% instead of 2.7%.

ALL THIS misses a key point: The Fed's cut in vernight federal funds rate from 6% to 5¾% was d not so much on how the economy is faring now on how it will look a couple of quarters down the . That's when the impact of lower rates will show n that regard, the June employment report tends pport the Fed's action, not discredit it.

e job numbers give no evidence that growth is go- to come roaring back in a way that would dis- e the Fed from believing inflation is under control. egin with, the June gain of 215,000 nonfarm jobs overstated. The Labor Dept. said that 50,000 to 100,000 of those new jobs could be explained by the unusually long interval between surveys.

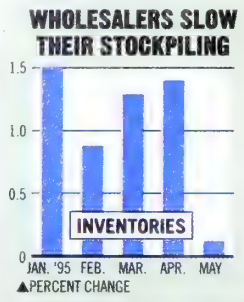
Because the time between surveys was five weeks instead of the usual four, payrolls in three seasonal industries—restaurants, amusement and recreation services, and construction—rose by a total of 104,000. Those industries account for only 12% of all jobs.

Even with the strong June increase, and allowing for Labor's revision to May payrolls, which cut in half the originally reported 101,000 decline, job growth averaged a paltry 59,000 per month last quarter, down from 226,000 in the first quarter (chart).

Moreover, the drop in the jobless rate to 5.6%, from 5.7% in May, looks suspect. Although new jobless claims appear to have peaked in late June, the rise in claims this year is historically consistent with an unemployment rate closer to 6%. A higher jobless rate later this summer or fall seems assured.

INTERESTINGLY, the only pieces of the employment report that were available to the Fed at its meeting were those from manufacturing, mining, and utilities. The Fed research staff receives that data early in order to calculate its monthly index of industrial production. And the factory sector was the weakest part of the employment report.

Manufacturers let go 40,000 workers in June, the third decline in a row, bringing losses since March to 104,000. The May and June drops were the broadest in 3½ years, with the largest payroll declines occurring in transportation equipment and apparel, two industries facing large inventory adjustments.



The good news, though, is that manufacturing may be stabilizing, as the inventory correction runs its course. The factory workweek rose by 6 minutes, to 41.5 hours, following three months of declines. The rise suggests that the reductions in output necessary for businesses to adjust their stock levels are starting to wind down. Indeed, inventory growth in the wholesale sector took a sharp downward turn in May (chart).

The key question is: Where does the Fed go from here? The Fed's official explanation on July 6 said, "inflationary conditions have receded enough to make a modest adjustment in monetary conditions." Fedspeak

ERIC HOFFMANN/BW

aside, in the past a "modest adjustment" has rarely been limited to a mere quarter point, which the economy will barely even feel.

Further cuts would be consistent with a key policy guideline called Taylor's Rule, which tries to balance policy actions against a prescribed goal for inflation while also taking into account economic growth. Policy under Greenspan has tracked this rule very closely.

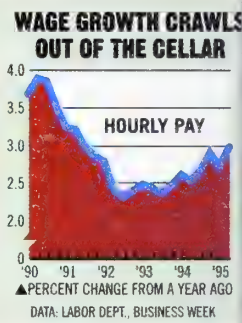
By Greenspan's own standard of real interest rates, policy is quite restrictive. With inflation expected to be about 3½% by yearend, the current real federal funds rate is 2¼%, well above the 1¾% historical norm. By this measure, it would take another half-point cut to shift policy to a more neutral impact.

Also, the Fed may have been thinking ahead to the fiscal drag that will hit the economy next year as a result of Washington's efforts to trim the deficit.

IMPLICIT IN THE FED'S move is a bet that inflation will stay under control. It's a good bet. While second-half economic growth is set to pick up from the second quarter's dismal showing, it is not likely to exceed the Fed's noninflationary speed limit of about 2½%. The index of leading indicators fell 0.2% in May, the fourth drop in a row. Past rate hikes will still be a drag on demand, and the negative effects of the inventory correction may hang around through the third quarter.

Even so, consumers appear to have ended the second quarter stronger than they started it. Car buyin picked up in June, thanks to the widespread use of i centives. Purchases of U.S.-made cars and light truc rose to an annual rate of 12.7 million, up from 12.5 m lion in May and 11.9 million in April. Also, week pay increased in June, rebounding 1.3%, thanks both higher hourly wages and a longer nonfarm wor week, suggesting better income growth.

Household finances will also improve because of the lightning speed with which banks cut their prime rates, from 9% to 8.75%, after the Fed's move. That quickness shows keen loan competition and implies a generous flow of credit through the economy.



The Fed will clearly keep a sharp eye on wage growth, since its pace continues to drift higher (chart). But that slight pickup has be more than offset by productivity gains. So unit lab costs—the main determinant for prices—remain tam

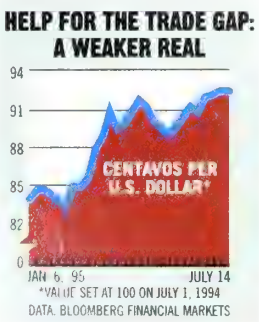
For now, the June employment report says that t worst of the weakness is probably over, and that rece sion is not a worry. What the Fed's rate cut says is: A long as growth remains moderate, a pickup in t economy need not preclude even lower rates.

BRAZIL

ANOTHER DEVALUATION, FEW TREMORS

Brazil's sixth currency in a decade, the real, was a year old on July 1. So far, so good. Inflation is down to 30% per year from 50% per month a year ago.

But now, rampant consumer-led growth is fueling imports, causing a $3.5 billion trade deficit through May—Brazil's first gap in eight years. To close it, the government devalued the real on June 22 for the second time in four months. The real's trading band was shifted from 88 to 93 centavos per U.S. dollar to 91 to 99 centavos. The devaluation follows other import curbs, including tariffs on many goods and quotas aimed at cutting car imports.



But because the devaluation of up to 6.5% was small, the financial markets barely blinked. The real, at 92.38 centavos on July 11, remains within the old band. The central bank is expected to hold interest rates near 60% and spend some of Brazil's $32 billion in foreign exchange reserves in order to keep the real near its current level.

But to keep investors happy, the trade balance will have to show true improvement. Already, tight credit has slowed consumer demand sharply, and the Finance Ministry projects lower second-half imports. Although the June trade deficit is expected to widen further, the July gap could post a surplus.

Another investor worry, stoked by the devaluation, is inflation. It's expected to accelerate to a monthly rate of 3.5% in July, after June's 2.66% rate. But with food costs under control, the pace should slow after July. Also, the government abolished the long-held practice of indexing pay scales and other transactions to prices. That action is critical for the real's success, and it will ease inflationary pressure going forward.

In an ironic twist, the devaluation, while relatively painless for Brazil, may hurt Argentina, which needs to export to stave off recession and ease its current-account deficit. With the Argentine peso hard-pegged to the U.S. dollar, its exports to Brazil, which are a fourth of all Argentine exports, are now more expensive. To help, on July 12, Brazil exempted Argentina from the auto-import quotas.

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And networks.

Peripherals.

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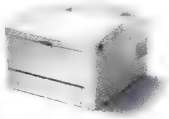

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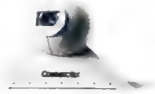

The real beauty of the Mac OS and Apple advancements like QuickDraw™ 3D and QuickTime VR is that people don't even know they're there. What they *do* know is that with a PC running Mac OS, it's actually practical to use multimedia, videoconferencing, 3-D visualization and virtual reality.

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Apple

CHINA VS. AMERICA

The most serious clash in years may cost U.S. business

Last year, when Chrysler Corp. became the top contender for a $1.2 billion deal to produce minivans in southern China, U.S. companies seemed to be in the driver's seat in the world's most important emerging market. But on July 12, in a gesture apparently designed to jolt Washington, Chinese President Jiang Zemin took aim at Corporate America. During a visit to Germany, he snubbed the U.S. auto maker and handed rival Daimler Benz the project to make 60,000 minivans and 100,000 engines.

With alarming speed, the U.S.-China relationship is plunging into an abyss. Although political and economic tensions have been building for more than a year, the eruption came when the White House let Taiwan President Lee Teng-hui visit the U.S. in May. In the wake of the visit, senior Chinese trade official Wang Zhiquan had warned that courting Lee would damage "mutually beneficial" trade ties with the U.S.

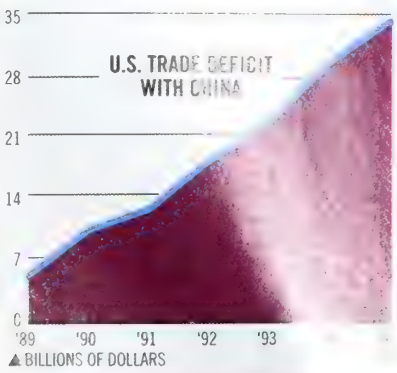
It certainly has. Across the country, executive suites are witnessing China's fury. During the past two months, Chinese officials canceled a procurement trip to United Technologies Corp. and went to Europe instead. Then, a host of top U.S. chief executives were stood up when Shanghai's mayor called off a trip to New York. And Greiner Engineering Inc. was told by Chinese officials it lost out on a $35 million deal to provide high-tech equipment for a mainland airport because Beijing disapproved of U.S. policy toward China.

For U.S. companies, the sudden chill is ominous. China is regarded as th single most important overseas mark for many of America's most strateg industries. Take Boeing Co., which ha supplied over 70% of the roughly 3 commercial jets China has purchase since the early 1970s. Its prospects hav dimmed considerably. "We're being to there's a lot of pressure" from seni Chinese officials "not to go ahead wit Boeing," says Lawrence W. Clarkso senior vice-president for planning ar international development. "It's a ver serious situation, and it's getting wors every day."

The cold shoulder signals much dee

A ROCKY ROAD

Fights over trade, human rights, and Taiwan strain relations



DATA: U.S. COMMERCE DEPT., DRI/McGRAW-H

MAY 1993

China is accused of violating its 1992 agreement to stop exporting goods produced by prison laborers to the U.S.

OCTOBER 1993

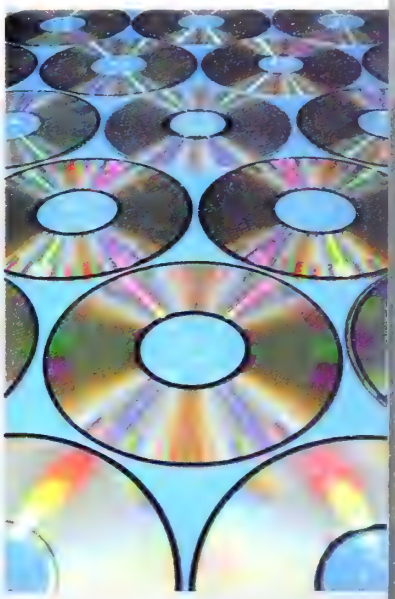
China loses a bid to host the 2000 Olympics after strong protests from Congress.

MAY 1994

◀ As the U.S. trade deficit with China soars, Clinton renews most-favored-nation trade status. Commercial issues are delinked from human-rights problems.

DECEMBER 1994

The U.S. thwarts China's entry to the World Trade Organization.



FEBRUARY 1995

▲ Under threat of trade sanctions, China bows to U.S. demands for protection of intellectual-property rights involving music and computer software.

oblems in the U.S.-a relationship: The countries have yet d a framework for ng with each other e post-cold-war era. ington hasn't craft- coherent policy to with the new d of superpower a is fast becoming: conomic giant with litical system that ins closed and re- ive. And China has o learn how to be- on the global e. It overreacts Washington chal- s it politically, even gh it needs the market and U.S. nology to prosper.

TEADY HANDS. All adds up to the t crisis in Sino-U.S. since the days after 1989 Tiananmen re massacre. Par- arly worrisome is neither country appears to have a r who is firmly in control. Chinese dent Jiang Zemin, embroiled in a r struggle to succeed ailing Deng ping, has no choice but to hang with Washington on matters relat- o sovereignty. In addition, Chinese mats who best understand Ameri- can politics are more on the sidelines now because they failed to predict the Lee visit. That has created a vacuum that party and military hard-liners are happy to fill.

Things aren't much better in Washington. Wary of appearing too pro-China with elections approaching, Clinton all but ceded the China agenda to the Republican-controlled Congress. Congressional leaders are eager to exploit issues ranging from human-rights abuses to Chinese missile-technology transfers to Iran and Pakistan. And the Republicans have just begun their assault. They're seething over the arrest of human-rights activist Harry Wu, a U.S. citizen. After entering the mainland, he was charged with stealing state secrets.

COSTLY SNUB. The Clinton Administration's bungled diplomacy, meanwhile, forced Beijing into a corner. While the Taiwanese president's trip didn't constitute an "official visit," Chinese leaders saw it as a clear departure from the "one-China" policy that has been the foundation of the Sino-U.S. relationship since 1979. To some of China's leaders, Clinton's reluctant O.K. for the trip seriously raised the prospect that Washington is moving toward recognizing Taiwan's independence. And the U.S. didn't help by doing nothing to brace the Chinese. In fact, just prior to Lee's

Jiang and Clinton: The two nations still haven't found a framework for dealing with each other in the post-cold-war era

MAY 1995

Clinton yields to congressional ressure and allows Taiwanese resident Lee Teng-hui's private sit to the U.S. China's Defense inister cancels his U.S. visit.

JUNE 1995

▲ The CIA charges that China shipped missile components to Iran and Pakistan.

China recalls its U.S. ambassador, while America's frustrated ambassador leaves his Beijing post.

▶ China arrests human-rights activist Harry Wu, a U.S. citizen.

JULY 1995

China holds military exercises off its coast, causing jitters in Taiwan.

The Shanghai mayor cancels a trip to meet business execs in New York. President Jiang Zemin tours a Mercedes plant in Germany and hands Daimler Benz a $1.2 billion minivan-and-engine deal. Chrysler had been the front-runner.

TOP TO BOTTOM: PHOTOGRAPHS BY CLAUDE PARIS/AP; SHEPARD SHERBELL/SABA (BOTTOM); TOP TO BOTTOM: PHOTOGRAPHS BY VIAVANTI/SIPA; XINHUA CHINE NOUVELLE GAMMA; JASON JAMIE TANAKA

visit, U.S. envoys had repeatedly assured Beijing it wouldn't take place.

In China, the Lee visit quickly escalated into a personal affront to President Jiang. In his campaign to win credibility among China's power elite, Jiang had tried for months to set up a meeting with Clinton. Most recently, he requested such a session when both leaders were in Moscow for World War II commemorations. But he was rebuffed. "When Clinton refused to see Jiang in Moscow, this was seen as a great loss of face for China," says a Beijing economist.

Now, if Jiang doesn't satisfy the Chinese military by taking a hard line on U.S. policy, he will give rivals a chance to discredit him. "For Jiang, political power is more important than anything else," says Shan Li, China economist at Goldman, Sachs & Co. in Hong Kong. "Even economic development is secondary." On July 10, China's Defense Minister went on national TV to rail at "hegemonism and power politics" in clear reference to the U.S.

Beijing is insisting that the ball is in Washington's court, and Chinese officials have indicated that they would like President Jiang to meet with Clinton in September when the Chinese leader visits the UN. "What they really are demanding is an invitation to talk with Clinton," says Huan Guocang, vice-president and senior economist at J.P. Morgan in Hong Kong. "They want assurances from the top that the U.S. is not altering its China policy."

Congressional leaders have their own words for Beijing. Senator Jesse Helms (R-N.C.) and Senator Russ Feingold (D-Wis.) are planning to introduce legislation to revoke China's low-tariff trade privileges. Says Representative Christopher H. Smith (R-N.J.): "The Chinese dictatorship must be told in no uncertain terms that its most-favored-nation trading status is dead as long as Harry Wu is captive." Further turning up the heat, on July 9, House Speaker Newt Gingrich declared that he would support full diplomatic recognition of Taiwan.

How the China Problem Hurts Corporate America

CONTRACTS LOST Political tensions have cost Chrysler and Greiner Engineering big deals. Other major ventures are at risk.

EUROPEANS FAVORED Now that Mercedes has replaced Chrysler as the front-runner for a huge minivan deal, other European companies are poised to grab major contracts.

CANCELED TRIPS United Technologies officials in Beijing note that the Chinese canceled a procurement trip, and IBM says Beijing has put off many visits.

POLITICAL LECTURES CEOs visiting Beijing are warned of China's deep displeasure with American policy.

MEETINGS DOWNGRADED Senior U.S. executives are finding it difficult to meet with the top leadership. Chinese officials are sending low-ranking representatives to U.S. business receptions.

U.S. RETALIATION U.S. executives worry that Congress could stir up the debate again over China's most-favored-nation trade status.

DATA: BUSINESS WEEK

With China's trade surplus with the U.S. expected to top $32 billion this year, the backlash among populists in Congress will intensify if Beijing continues to discriminate against U.S. business for political reasons. Ironically, it was President Clinton who last year delinked trade from politics when he renewed China's most-favored-nation trade status without human-rights conditions.

American companies had been counting on smoother sailing. Of course, investing in China has always had its frustrations, notably Beijing's heavy protectionism and slow pace of approvals. Nevertheless, since 1990, U.S. exports to China have nearly doubled, to $9.3 billion last year. Over the same years, annual investment rose 620%, to $2.2 billion in 1994. Scores of U.S. industries, such as telecommunications, power generation, and aviation are vying for big-ticket deals. Just six months ago, when Beijing agreed to a sweeping intellectual-property agreement with Washington, the doors of China's vast market began to open in such areas as computer software, films, and recorded music.

Now, American companies are targets. Take infrastructure deals such as the one Greiner lost. When Philip Carmichael, vice-chairman of t American Chamber of Co merce in Beijing, asked C nese officials why Greiner l the airport contract, they r plied: "It's because your go ernment issued a visa to L Teng-hui." Adds Carmicha "Any high-profile deal ov $30 million is looked at ve critically by the Chinese go ernment now."

Chrysler's minivan de was well above that thres old. Before the Lee visit, t planned joint venture Guangdong province was co sidered Chrysler's to los Even so, negotiations h been bogged down f months over Beijing's d mands that the auto mak allow its Chinese partner export its minivans and su license Chrysler technolog Mercedes is offering to e port 20% of its Chinese-bas engines and vans, based its Viano model, scheduled be launched in Spain in 1996. The de also is part of a comprehensive manufa turing and technology-transfer progra with Daimler Benz for its buses, train planes, and satellites.

LOW TEA. Still, an executive close the deal says the U.S.-China tensio made it difficult for Chrysler to neg tiate a compromise. For such big-tick projects, he says, "you have to ha good relations with the government And the message from the barrage snubs and slights U.S. executives a receiving is unmistakable.

In addition to canceled trips fro mainland officials to the U.S., America CEOs visiting China rarely sip tea wi the likes of Premier Li Peng or othe top-ranking officials anymore. Instea they get lower-ranking officials or scol ings. Red capitalist Rong Yiren, no China's vice-president, gave the "oblig tory lecture" on American policy to major U.S. food-and-beverage comp ny, says Carl Goldstein, China-watche for Washington's International Strat gic Advisors Ltd.

The impact is even felt in the cultur sphere. A U.S. pop-music band, th Flying Burrito Brothers, was refuse visas for the Fourth of July party

The Chinese went ballistic when Taiwan's President visited the U.S. Was Harry Wu seized in retaliation?

J. S. Embassy in Beijing. And when
erman company planned to give
cal equipment to a Beijing hospital
aged by a U. S. charity, the Chi-
threatened to call off the donation
mony. The show went on after the
ricans promised to stay away.
r Europeans, it's the best of times.
us Industrie, which wants to break
ng's hold by grabbing half of the
ese market for imported planes by
recently broke ground on a $50
on training-and-service center in
ng. And after the Daimler ventures,
a is expected to sign deals with
European companies soon.
e European Union isn't sitting
either. On July 5, European Trade
missioner Sir Leon Brittan un-
d a program to improve the EU's
ions with China. He also called for
flexibility in allowing China to
the World Trade Organization—
rmining Washington's demands
Beijing first meet stiff market-ac-
requirements.

By spurning Big Business in the U.S., China risks alienating its most important advocate for closer ties with Washington

vocative provisions as easing restrictions on arms sales to Taiwan and letting Taiwan subtly upgrade the status of the Taipei Economic & Cultural Representative Office, its de facto embassy, by renaming it the Taiwan Representative Office.

By backing Taiwanese independence, congressional leaders such as Gingrich "are going after the single most sensitive point on China's anatomy," warns William H. Overholt, managing director of Bankers Trust in Hong Kong. That could encourage a growing independence movement on the island. Taiwan's opposition Democratic Progressive Party (DPP) has been calling for independence—and gaining political

FACTORY IN BEIJING: *Chrysler just lost a $1.2 billion minivan deal*

hile the Europeans run up diplo-
c points, getting Sino-U. S. relations
on track won't be easy. At the mo-
t, the two sides are barely commu-
ting. In mid-June, seasoned U. S.
bassador J. Stapleton Roy abruptly
for a new post, and the Chinese
ptly recalled their own ambassa-
from Washington. The Chinese have
to give their informal approval to
es Sasser, Clinton's choice as the
ambassador to Beijing. As a U. S.
tor, Sasser constantly criticized Chi-
suppression of Tibet.
nd Congress's China-bashers are
turning up the heat. In the up-
ng State Dept. authorization bill,
esentatives have inserted such pro-

ground. Some fear China would even declare war if the island—still regarded in both Beijing and Taipei as a Chinese province—declared independence.

But unlike China's other thorny disputes with the U. S., Taiwan is nonnegotiable. To most Chinese, the issue touches a nationalist chord. The Chinese military underscored the point in mid-July by conducting air and naval maneuvers off Taiwan's coast. More are expected. The July 11 U. S. decision to normalize relations with rival Vietnam also may fuel China's fears that Washington is trying to contain it.

How much can Beijing afford to pummel U. S. business over political tensions? If China pushes too hard, it will alienate the companies that have long backed its interests in the U. S. American corporations that have the telecommunications, electronics, aviation, and other technologies critical to China's modernization could get cold feet. They may end up viewing investment in China as not worth the risk—and shift capital to other emerging Asian dynamos, such as Indonesia and India.

A GAPING HOLE. China also risks provoking new limits on access to the U. S. market. No matter how hard China works to improve trade ties with Europe and its Asian neighbors, the U. S. absorbs at least one-third of China's exports. In 1995, those exports to the U. S. are expected to hit a record $47 billion. Without the U. S., China would have an enormous current-account deficit. Says Manu Bhaskaran, Singapore-based director at Crosby Securities Inc.: "At the same time they resent nannying from the U. S., the Chinese realize they need the U. S. market."

There still are opportunities for both sides to forge a reconciliation. On July 20, for example, the U. S. and China will meet in Geneva to discuss China's bid for admission to the World Trade Organization. The Clinton Administration may also set up high-level meetings to assure China that the U. S. is not seeking to undermine China's sovereignty. If activist Wu is released, Jiang and Clinton could possibly meet when Jiang visits the UN in September.

For now, though, the signs remain highly menacing. The U. S. and China appear to have entered an unpredictable and critical phase in their relationship. It requires both sides to balance their clashing economic and political goals while maintaining cool heads. "We're very anxious to have a good relationship with China," comments a senior Administration official. "But that can't mean we subordinate our interests every time they conflict with Chinese interests."

Considering the domestic political problems in both countries, it may be too much to hope for clearheaded, long-term thinking from either Beijing or Washington right now. If so, the bumpy ride U. S. companies are experiencing in China could get a whole lot rougher.

By Joyce Barnathan in Hong Kong, with Dexter Roberts in Beijing, Amy Borrus in Washington, Bruce Einhorn in Hong Kong, and bureau reports

JEFFREY AARONSON/NEWSWEEK ASPEN

COMMENTARY

By Amy Borrus

WASHINGTON AND BEIJING: DUMB AND DUMBER

Only a year ago, relations between the U.S. and China seemed about to enter a stable new era. President Clinton's May, 1994, decision to de-link annual renewal of most-favored-nation trade status for China from its human-rights record eliminated a major source of friction between Washington and Beijing. Economic relations brightened. And American CEOs, eager to tap China's booming markets, rushed to join Commerce Secretary Ronald H. Brown on a trade mission to Beijing.

This year, the Ron Brown Express sits idly in the hangar. Bitter disputes about a visit to the U.S. by Taiwan's President, a bulging trade imbalance, and Chinese arms trafficking have sent Sino-U.S. relations into a tailspin. Now, Chinese officials are threatening to re-link trade and political concerns by throwing juicy deals to Corporate America's rivals as punishment for Washington's transgressions. "Not since the cold war started have relations between two powers deteriorated so far so fast," laments one Administration official.

"HUGE LEVERAGE." Given such mistrust, it's going to be tough for the U.S. and China to get back on firm footing. But they have no choice. For the U.S., the fraying of U.S.-China ties erodes America's stature in Asia, could cost U.S. companies billions, and hurt security goals, such as curbing the proliferation of nuclear weapons. For China, the U.S. is its biggest export market. Take that away, plus U.S. technology and capital, and Beijing can't fuel economic growth. "Our wealth is huge leverage over the Chinese," says Douglas Paal, president of the Asia Pacific Policy Center in Washington.

What to do? For starters, a statement by the President that the U.S. supports a unified and prosperous China would help reassure suspicious minds in Beijing who are convinced that Clinton is simply out to contain a growing giant. And the White House must belatedly seize control of the agenda by telling China-baiters in Congress and Taipei to cool it. Now isn't the time to goad Beijing by enhancing Taiwan's stature.

For its part, China should find a way to release prominent Chinese-American human-rights activist Harry Wu and free top Chinese dissidents. Beijing may think that by arresting Wu it is signaling its anger over the Taiwanese President's visit. But it is really spotlighting China's repressive ways and stoking heat from resurgent China critics on Capitol Hill.

Longer-term, the Administration must develop a more sophisticated strategy for dealing with the Middle Kingdom. The Clintonites are right to seek to engage China across the board: The U.S. has too many interests at stake to let any one issue drive the relationship. But Washington also must map out its priorities more carefully.

Nurturing security and commercial ties should top the list, given China's military might and economic potential. Marshaling global support for China's admission to the new World Trade Organization on tough commercial terms is key. But it may not make sense to threaten sanctions over weapons sales that affront U.S. standards but do not violate international law. Nor is it wise for Congress to denounce China's human-rights record publicly at every turn instead of stepping up pressure quietly and meeting Beijing's request for help in modernizing its judicial system.

Then, there's Beijing's up-and-coming crop of leaders, who should stop acting like cold-war communists and develop some global-era foreign-policy flair. For all of its military and economic power, China is amazingly backward in its dealings with Washington. Instead of anticipating pitfalls in its relations with the U.S., the Chinese react shrilly when problems occur. And their lobbying is limited to crude moves such as squeezing American companies to pressure U.S. policymakers. China must realize that accepting international norms on trade and security matters, as well as redressing its Draconian approach to human rights, is the only way it will ever shed its status as an outlaw nation.

There's plenty of blame to go around for the chill that has settled over U.S.-China ties. Says a China hand in Washington: "It's been *Dumb and Dumber* in terms of who is mismanaging the relationship more."

If the U.S. wants to shore up its credibility as a superpower, it must use its leverage wisely to keep China engaged. And if China wants to be treated like a budding superpower, it must start behaving like one.

Amy Borrus covers trade from BUSINESS WEEK'S *Washington bureau.*

THE ECONOMY

WHAT IF THEY ACTUALLY BALANCED THE BUDGET?

Short-term economic pain could be followed by a huge payoff

It may be the most crucial policy debate of the decade: Will balancing the budget over seven years condemn the economy to chronic weakness and recession? Or will getting the government's finances in order unshackle the economy?

Here's one vote for the optimistic scenario. DRI/McGraw-Hill, the economic consulting subsidiary of BUSINESS WEEK's parent, has assessed the macroeconomic and regional effects of the Republican's budget-balancing blueprint. The result: Some parts of the country will show healthy employment gains while others lose out. But overall, the national economy will grow stronger and more globally competitive. "One of the problems with deficit reduction is fear," says Roger E. Brinner, chief economist at DRI. "But deficit reduction is truly digestible in this economy."

Of course, most budget-cut specifics won't be fleshed out until this fall. Still, the Republican budget resolution offers broad guidance. DRI's model assumes that the GOP will succeed, for example, in slowing annual growth in Medicare spending by $270 billion and Medicaid by $180 billion, and it accepts that overall planned government spending will be reduced by nearly $1 trillion over seven years. It assumes that bond investors will react by driving long-term interest rates to nearly 4% in 2002. It expects a major capital-gains tax cut, and sees the Federal Reserve Board aggressively pursuing a looser monetary policy to offset the fiscal contraction.

As a result, DRI says, real gross domestic product in 1996 would come out 0.3% lower than current projections. But by 2005, real GDP would be about 1% higher, as a restrained government sparks strong investment and higher productivity. A 17% drop in federal spending would put hundreds of thousands of government employees out of work. Yet with the fed funds rate, the rate banks charge each other for overnight money, dropping as low as 3.5%, the stock market booming, and investment spending surging, overall unem ployment would hover around a low 6%

Pie in the sky? Not to Jared E. Hazleton, director of the Center for Business & Economic Analysis at Texas A&M University. He points out that Fort Worth has lost at least 13,000 defense-related jobs over the past five years and that the loss has been largely absorbed by growth in the service sector. Robert D. Reischauer, former Congressional Budget Office director, agrees: "Downsizing the federal workforce . . . is no different from IBM and other companies laying off thousands," says Reischauer. "It hurts the communities where these people are let go, but a big, dynamic economy like ours reabsorbs people."

MIXED BAG. Industry, in fact, should gain broadly from deficit reduction. By 2005, according to DRI, capital spending will jump by an extra 6% as businesses load up on computers, machine tools and other goods. Lower interest rates should also hike car sales by 250,000 units a year by 2005, housing starts should jump by roughly 5% a year from 1997 on, and exports will increase.

The regional impact is less conclusive (map). In a balanced-budget world, the manufacturing belt of the Midwest would gain from strong plant and equipment investment and healthier auto sales. Much of the Southeast and the Gulf Coast would do better than average, too, partly because these regions

Balancing the Books: The Regional Impact

How the Republican budget resolution will affect regional employment seven years from now

less dependent on Medicare and icaid expenditures while likely to a boost from higher exports, says Johnson, chief regional economist RI. Florida, of course, would suffer its large elderly population.

he Northeast is a mixed bag. It pro- s many high-tech capital goods—a But health care is big business in New York-to-Boston corridor, and hell L. Moss, director of the Taub an Research Center at New York versity, expects massive consolidation in the New York and New Jersey hospital business. According to DRI, balancing the budget means 19,500 fewer jobs than otherwise expected in New England and 80,900 less in the Middle Atlantic states in 2002. Much of the Pacific region will suffer because of a high concentration of federal employment.

The fiscal squeeze on most states, meanwhile, could be nothing to sneeze at. By DRI's reckoning, federal aid to the states will be at least $40 billion lower than current projections in 2000—evidence that there is no painless way to eliminate America's chronic budget deficit. Still, it appears that the payoff is worth the risk—if Fed inflation hawks and bond-market vigilantes become convinced that Washington is finally serious about fiscal discipline. In the end, that's the question to be answered: Does Washington have what it takes to get its fiscal house in order?

By Christopher Farrell in New York, with Wendy Zellner in Dallas and bureau reports

CA-LI-FOR-NIA, THERE IT GOES...

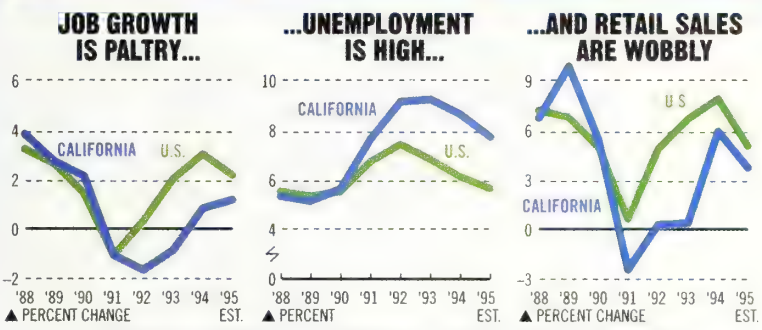
For most of its 22 years, business boomed at Erika's Bake Shop in the upscale village of Westlake. ut after more than a 25% drop in ales since 1990, owner Deiterich Ieinzelmann closed up shop. He ust couldn't justify the $200,000 investment he needed in order to stay business. "I would have taken the sk in 1988," he says. "But not in his economy."

Just six months go, California eemed to be on the end. Hollywood, e state's highest- aying employer, ad added 10,000 bs in 1994, up 8% om the previous ear. Retail sales ad risen 8%. And e housing market as coming back to fe.

Now, California's ecovery is slower an the Ventura Freeway at rush our. And the economic engine that nce pulled along the rest of the .S. is in danger of being dragged own further. Battered by continued b losses in the defense industry, a ew round of cuts by local governents, and a soft housing market, alifornia appears stuck in low gear r the foreseeable future—with the sk of a recession in the offing.

ILITARY LOSSES. No one is as wored about California's prospects as resident Clinton, whose reelection opes rest heavily on a win in the nce-Golden State. With $10 billion in efense procurement cuts and a loss more than 300,000 aerospace jobs nce 1989, Californians are poised to lame the U.S. government for their ough times. So it was a reluctant linton who on July 12 endorsed a federal commission's recommendations to close 14 California military installations—and only after assurances that over 90% of the 11,000 job losses at McClellan Air Force Base in Sacramento could be saved by contracting them out. Still, the closures will cost the state some 22,898 "indirect" job losses on top of the military cuts.

California's Lost Luster



DATA: BUREAU OF LABOR STATISTICS, SALOMON BROS. INC., CASE SHILLER WEISS INC., DRI/McGRAW-HILL

Already, the Golden State's unemployment rate, at 7.6%, remains two percentage points above the national average—despite modest gains in June. And there are more layoffs yet to come. In June, Los Angeles County announced it would eliminate up to 18,000 jobs to help close a $1.2 billion budget shortfall. Bankrupt Orange County, which already has cut its workforce by 11% and its budget by 41% since the beginning of the year, has more cuts coming. "California's margin of error is pretty slim," says David Hensley, regional economist with Salomon Brothers Inc. "Any job slippage in government increases the risk of recession."

Complicating the employment picture is the anemic demand for California's products because of ailing economies in other regions of the U.S. and abroad. Exports to Japan, California's largest trading partner, for instance, grew a skimpy 1.4% in the first quarter, compared with 26.2% in the first three months of 1994, according to the Massachusetts Institute for Social and Economic Research.

Faced with shrinking job prospects, Californians have stayed away from home purchases—once a catalyst for the state economy. Sales of new and existing homes in Southern California fell 19% during the first five months of the year, according to TRW-REDI Property Data, a real estate researcher. "The investment incentive is gone," says Todd Schwartz, a 29-year-old executive with NBC Inc. "Ten years ago, everyone was rushing to buy. Now 'condo' is a dirty word."

Not all is doom and gloom, however. Many economists insist that once the impact of the Federal Reserve Board's July 7 rate cut works its way through the economy, other California industries will be following in Hollywood's footsteps. "California should be improving from here on out," predicts Lynn Reaser, chief economist at First Interstate Bank of California.

If Reaser is wrong, residents of communities like Westlake may see more than just their bakeries suffer. In the meantime, Californians are keeping their fingers crossed that their wobbly state economy doesn't take another dive.

By Eric Schine in Los Angeles

ALBERTO MENA/BW

ORANGE COUNTY

A CLEANUP BATTER TAKES A WALK

Creditors liked Bill Popejoy. Local pols wanted him gone

Last February, he seemed the perfect choice. A seasoned business executive who had overseen troubled situations before, William J. Popejoy was an Orange County resident, well known on Wall Street, and, best of all, he was willing to work for free. Who better to take on the newly minted role of chief executive officer of the bankrupt California county? Beating out the well-known turnaround artist Sanford C. Sigoloff, Popejoy was approved as the county's first chief executive officer by county supervisors on Feb. 10. Just five months later, on July 12, "with considerable personal regret," Popejoy submitted his resignation.

The Orange County supervisors attempted "to reinvolve themselves in details of the county's administration and management"

—WILLIAM POPEJOY
Ex-CEO, Orange County

"TO THE LIMIT." Popejoy, 56, had wasted no time charting his strategy for the county's recovery—to the chagrin of his sponsors. Within weeks, he had fired two county executives linked to its financial collapse, identified $111 million in assets to be sold, and named 25 government activities that might be privatized. And most controversial, he backed a politically unpopular one-half-percent sales-tax increase, opposed by two of the five county supervisors and then defeated at the polls on July 27. "The board of supervisors gave him a lot of independence, and he pushed that to the limit," says Tom Kenny, a former member of the county's creditors' committee who oversees the municipal bond department at mutual-fund company Franklin Resources Inc.

Now, Popejoy has paid the price for his free rein. The seeds of his departure were sown at a closed-door meeting two days after the sales tax vote, when county supervisors agreed to replace him by midsummer with a permanent CEO, according to attendees at the meeting. Executive search firm Heidrick & Struggles Inc. was given the job of finding a successor.

In his statement of resignation, which is effective July 31, Popejoy specifically cited the board's attempt "to reinvolve themselves in details of the county's administration and management." And county supervisors clearly felt that their CEO was too independent. Popejoy "sometimes went off on his own," complains Supervisor Jim Silva.

But Orange County officials deny that their decision to seek a new chief executive was politically motivated. Supervisor Gaddi H. Vasquez says it "would be inappropriate speculation and conclusion" to blame Popejoy's departure on his public skirmishes with the board. The supervisors had delayed their search for a permanent CEO, Vasquez says, because of the early retirement of the head of human resources.

Popejoy's early exit is not likely to play well in Sacramento, where the governor has the power to appoint a trustee for the county. "He was the best thing Orange County had going for them," says State Senator Lucy L. Killea, chair of the Special Committee o Local Government Investments set u to investigate the Orange County de bacle. She saw attempts to oust Popejo as politically driven.

The state clearly is losing patienc with the politics of Orange County crisis. On July 12, state lawmakers pro posed their own recovery plan for th county. They want the county to pa back the $900 million it owes supplier and bondholders over 20 years The money could come from a curren county transportation tax and other re serves. The state also wants the cour ty to stop trying to collect $300 millio that it lost as an investor in the trou bled fund that sent it into bankruptc As a result of the resignation, spokesman in Governor Pete Wilson office says, the Governor ma consider creating a trusteeship, amon other options.

Bondholders and creditors, who sa they appreciated Popejoy's accessibilit and authoritative answers, aren't likel to be happy with his departure eithe "The supervisors showed no leadershi but Popejoy moved the ball ahead," say John Schotz, the financial adviser to th 244 entities that lost money in the in vestment pool.

STRAIGHT SHOOTER. A 1960 graduat of California State University in Sa ramento, Popejoy, until his Orang County involvement, was best know for his ill-fated efforts in the mid-1980 to save ailing Irvine (Calif.) America Savings & Loan from the clutches federal banking regulators. A tenn buff, he now lives in tony Newpo Beach with his wife, Nancy.

It is Popejoy's straight-shooting sty that probably sealed his fate with th county. He may have laid the groun work for his undoing by calling for th resignation of County Supervisor Rog R. Stanton on June 16 in a beef ov settlement talks in the county's lawsu against Merrill Lynch & Co. Stanto had suggested the county could get b with a $500 million deal, while Popej was trying to cajole $1.2 billion fro the investment firm. Stanton did n resign, and the talks are now off, b Popejoy may keep a role in the Merr negotiations even after his departu as CEO, according to Supervisor Silva

Finding someone to fill Popejoy shoes won't be easy. "I don't know an one in the world of turnarounds wh sees this as a doable task," says o well-known crisis manager. After a experienced CEOs willing to work f free don't grow on orange trees.

By Nanette Byrnes in Los Angel

Resume

ALONG THE BLACKTOPPED *speedway of Indianapolis, the pressures of competing at 200 miles per hour exert inhuman force. Gravity punishes drivers with a 12-pound hand. And in the pit, laptop computers now determine wing angles on cars called simply "rocket machines."*

It was here that the crippling AntiEXE computer virus struck. Data vanished. Calculations faltered. IBM was called in.

Armed with IBM AntiVirus software downloaded from Sterling Forest, New York, IBM experts fought the virus laptop by laptop, even for teams not IBM customers.

Within hours, all traces of the virus were gone. And for the 33 drivers competing for immortality, a small pressure, at least, was removed.

For more about AntiVirus protection and other services, call 1 800 IBM-3333, ext. GA050. Or visit us on the World Wide Web at http://www.brs.ibm.com/ibmav.html

Solutions for a small planet™

ENVIRONMENTALISTS

NO NUKES, NO LOGGING, NO MONEY

In the Age of Newt, the green movement seems paralyzed

These are the times when the greens should be manning the barricades. When enviro-enemy Ronald Reagan was President, environmental groups attracted record contributions and mobilized a national crusade to stave off plunderers and polluters. Now, with House Speaker Newt Gingrich (R-Ga.) leading Congress on a search-and-destroy mission against regulations, the greens have an easy target.

But ecolobbyists wandering Washington seem lost in the wilderness. Gingrich & Co. haven't spurred a spike in membership or fund-raising. Green groups' '70s-vintage mantra—that government must remain ever vigilant in protecting the environment—isn't playing well in the devolutionary '90s.

EARTH DAY '95 ON THE HILL: *A Sisyphean task for activists*

Just as damaging: the groups' own tribulations. Plagued by poor management, many organizations during the 1980s diversified too quickly and stretched themselves too thin. Now, many are so preoccupied with internal management and financial woes that they can barely challenge the GOP assault on everything from clean-air programs to protections for endangered species (table). "They're shell-shocked," says one Senate staffer.

While the greens try to regroup, the GOP is taking a machete to many environmental programs. The House, led by Majority Whip Tom DeLay (R-Tex.), a former Houston bug exterminator, passed a bold deregulatory agenda on Mar. 3. The Senate is expected to follow in mid-July with a regulatory reform bill that would impose cost-benefit tests on environmental rules. Even President Clinton has proved disappointing, signing a budget-cutting bill that encourages logging. "There's no other word for it: We're losing," says James D. Maddy, president of the League of Conservation Voters.

BAD HAIR STYLE? Some groups have themselves to blame. Take the National Wildlife Federation. On July 3, longtime Chief Executive Jay D. Hair resigned amid sagging employee morale and a weakened balance sheet. Hair cited personal reasons for the decision, but current and former employees say he was forced out by staffers frustrated with his autocratic management style. Hair was notorious for his $257,000 salary and for being chauffeured to meetings.

For two years, moreover, NWF has had an operating deficit of about $800,000, and employees expect more red ink. "It's a sad story," says one former staffer. "And a sign of the mismanagement." Although fund-raising remains steady, NWF will take a hit fro its weakening catalog business in 199 which usually pulls in $4 million a yea Soaring paper and postage costs hav added to production costs. NWF has la off 58 workers in 1995, with more cu possible.

Other groups have been on shaky nancial footing, too. Greenpeace Interna tional made a splash by persuadin Royal Dutch/Shell Group n to sink an oil rig in th North Sea and by co fronting the French gover ment over nuclear testin Still, the blitz isn't likely offset losses. Greenpea International slashed 10% its workforce last Novembe and the U.S. affiliate laid o 30 people in June. Barba Dudley, executive director Greenpeace U.S.A., sa public support has droppe from $60 million in 1990 $32 million in 1994. T group ended the year $5 m lion in the hole, excludi money in its tax-exem foundation. "That affects o ability to do our jobs," says Dudley.

Dudley blames a soft economy. B enviros' woes also stem from a blu bery message. After expanding throug out the 1980s, many groups now a struggling to reorder their agenda. La year, the Sierra Club scaled back e forts to focus on the basics—clean a and water. The National Audubon So ety went to a management-consulti firm for retooling, and on July 5, it r placed veteran CEO Peter A. A. Berle

Not all the greens are suffering t blues. The Nature Conservancy, whi preserves land by buying it, is popul among conservatives and expects don tions to increase 20% this year. The E vironmental Defense Fund, an advoca of market-based solutions, expects me bership to peak at 250,000 this year.

Still, most enviros would be we served to face facts: Until they get the own acts together, they'll be har pressed to win new battles.

By Mary Beth Regan in Washingt

It's Not Easy Being Green

The problems dogging big environmental groups

DATA: BUSINESS WEEK

FUND-RAISING
Donations to many groups remain flat; the World Wildlife Fund and the Wilderness Society have reported decreases in contributions.

INTERNAL DISSENT
Several groups have suffered management turnover. On July 3, the National Wildlife Federation ousted longtime President and CEO Jay D. Hair.

POOR MARKETING
Nearly all the groups have struggled to present a relevant 1990s message that sells both to the public and to a GOP-led Congress.

FEWER SOLDIERS
Some groups have been forced to slash staff. The Sierra Club facing declining revenues, laid off 10% of its workforce last November.

AIN'T OVER
LL IT'S OVER AT GENENTECH

he ouster of CEO Raab the end of its woes?

rom the moment he arrived at Genentech in 1985, Abbott Labs veteran G. Kirk Raab crowed about how n more fun and exciting biotech was the stodgy drug industry he had doned. He left his suit and tie home days; he raved about the superint, dedicated young Genentech scists; he said he was proud that Geech had no big-company manual h, he said, "people only read when want to fire somebody."

y July 10, Genentech's board had some company's manual cover to r. It dismissed Raab from his posts EO and president, citing his ethicalubious lapse during a recent negoti- n with 66%-owner Roche dings Ltd., and cryptically tioning his "leadership" in re- years. It replaced him with company's respected research ctor, Arthur D. Levinson.

uch decisive board action nt be seen as evidence of efve corporate governance and uation well under control. At entech, however, it more likeeflects some amount of panic. ugh still a stunningly effecscientific machine and highly table, the biotech giant has embarrassed by several govnent investigations. And ale is being sorely tested by uncertainty created by a may shareholder that may deto impose its will at any time. ow, in fact, Genentech is mbling to convince shareholdthey should approve a deal would extend Roche's right urchase the remaining 34% of company it doesn't already . In documents made public ntly, Genentech admitted it was ried about retaining top scientists e jittery by Roche's undefined role ne company. It portrayed Raab as ually begging a standoffish Roche uy the rest of the company.

GUARANTEE. It was this negotiation led directly to Raab's ouster. Durthe Roche discussions, he admits, o asked the Swiss company to guare $2 million in personal loans he led to cover a big tax bill. Besides ng questions of conflict of interest, request weakened Genentech's defense in shareholder suits suggesting the extension was a bum deal. Roche and Genentech settled the suits by agreeing to slightly up the call price on Roche options, which extend to 1999.

The gaffe was oddly typical of a tenure marked by extremes. In 1990, within months after he had eclipsed founder Robert A. Swanson as CEO, Raab's wife was snared in an insider trading scandal. Constant charges that Genentech's sales force was too aggressive, from the medical community, patient groups, and competitors, have dogged the company. Even now, federal investigators are looking into the company's marketing practices; a sales executive has even been indicted (table).

RAAB AT REST: *"There is no smoking gun"*

Yet Raab also doubled income last year to $124 million, on sales of $795 million, and has hiked sales over 60% since 1990. Genentech pushed the exciting cystic fibrosis drug Pulmozyme to market in record time. And while there's a current lull in new products, many still consider Genentech's product pipeline the industry's richest.

Given that record, marvels one major biotech company CEO, "it's rare to see somebody publicly hanged." If anything, indeed, Raab's sudden downfall has only added to Genentech's woes, sparking widespread gossip and rumors within the biotech community of more bad news to come. Says Raab, peeved at the board's swipe: "There is no smoking gun or allegations of secret sexual misconduct or anything like that." Neither board Chairman Swanson nor member C. Thomas Smith, who led the board inquiry of Raab, would return calls.

SCHOLAR IN CHARGE. The board hopes Levinson can make Roche happy. He's an unlikely choice, though. While he rose from a bench gene jock to run Genentech's research effort and is popular among the company's scientists, he has little sales, marketing, or financial experience and seems uneasy in the spotlight.

Does having a scientist in the corner office fit into Roche's grand design? Genentech's sugar daddy has been moving research and development resources to California ever since its 1994 purchase of Syntex Corp. in Palo Alto. In the pending deal with Genentech, moreover, it will pick up all non-U.S. marketing rights to Genentech products. Says an investment banker familiar with both companies: "They'll buy Genentech within a year, I bet, and it will become a research institute." Levinson denies a change in direction is afoot. Already, however, he has announced his top priority is to accelerate Genentech's R&D pace. And ultimately, he will have to feed Roche's appetite for hot new products to stay in the saddle.

By Joan O'C. Hamilton in San Francisco

ONE EMBARRASSMENT TOO MANY

Blips in G. Kirk Raab's tenure as chief of Genentech

1990 Raab's wife, Mollie, settles an SEC charge that she gave inside information on the deal between Genentech and Roche to her brother.

1994 In a probe of growth-hormone marketing practices, a Genentech sales executive, Caremark, and a Minneapolis physician are charged with conspiracy. Genentech is not indicted.

1994 Federal regulators expand the ongoing investigation surrounding the growth hormone to include Genentech's flagship drug.

1995 Raab resigns after acknowledging that, during negotiations with Roche, he asked for a guarantee on a $2 million personal loan.

DATA: COMPANY DOCUMENTS, BUSINESS WEEK

GERRY GROPP

HOLLYWOOD

ALL THAT GLITTERS IS NOT GOLDWYN

Studio for sale. Rich old movie library. Little else

For nearly 40 years, he was one of the most powerful men in Hollywood. Aggressive, with a taste for big budgets and bigger stars, Samuel Goldwyn helped launch three movie studios and produced such classics as *The Pride of the Yankees* and *Wuthering Heights*. He discovered Gary Cooper, David Niven, and countless other stars, and was credited with such "Goldwynisms" as "include me out." When he was buried in 1974 at the age of 91, the industry's major studios stopped work for two minutes to pay their respects.

Now, a very different Hollywood is poring over what remains of Sam Goldwyn's legacy. Struggling under a mountain of debt and prodded by restless bankers, the Samuel Goldwyn Co. has been put up for sale by Samuel Goldwyn Jr., the company's 68-year-old chairman and CEO. Already, industry sources say, such heavyweights as Turner Broadcasting System, Dutch entertainment company Polygram, the Walt Disney Co., and greeting card giant Hallmark have asked the Goldwyn investment bankers at Furman Selz for financial documents.

CLASSIC GOLD. Why all the interest in a company with $91 million in revenues and a lineup of art films hard-pressed to break $10 million at the box office? Goldwyn's real gold is its library of 850 classic films, including *Oklahoma!*, *South Pacific*, and *Guys and Dolls*. With content a fast-appreciating commodity, Goldwyn's dog-eared classics could be worth a bundle. Indeed, by 2004, customers sitting at home are likely to be ordering up $6.4 billion worth of such movies, according to Paul Kagan Associates. "If you have a way to distribute or want to, having a library such as Goldwyn's could make you a player," says Marc J. Gabelli, an analyst and portfolio manager at Gabelli Funds Inc., which holds a small position in Goldwyn.

Some potential Goldwyn suitors, such as Hallmark, are eager to get into the business. The greeting-card company's entertainment unit, which produces TV mini-series, recently signed a $100 million deal to distribute Goldwyn's films on video and plans to launch cable channels in several European countries. Disney, part of a joint venture with three telephone companies, is said to be looking for movies to distribute to homes over telephone wires. Turner may want the older films for his classics channel. And cable operator Jones Intercable Inc. could use them as the foundation for an expansion into programming it has been pondering.

None of the potential buyers will comment. But if they look closely at Goldwyn, they'll find less there than they might have thought. Goldwyn owns a modestly successful chain of 123 screens in 50 mostly art-house theaters and a TV production unit with an aging hit in *American Gladiators*. And it has the big library of films. But 75 of the best movies, including *The Pride of the Yankees* and *The Best Years of Our Lives*, are owned by a trust controlled by Goldwyn and his wife, Peggy Elliott Goldwyn—not by the company itself. Goldwyn licenses them to the company and could walk away with them completely at the end of 1998. In the meantime, the company has paid him nearly $3 million over the last three years for the films, and still owes him an additional $9.4 million.

That arrangement almost certainly will force Goldwyn to cut its price from the $120 million it is said to be seeking. Investment bankers close to the deal say there is considerable pressure on Goldwyn, who owns 64.5% of the company, to restructure his personal deal to help the sale. Goldwyn executives have refused to comment.

The source of the pressure? Bankers, led by Bank of America, grew testy earlier this year when the company took on $62.5 million in debt to purchase more movie screens and to expand its film library. Soon after, the company took big write-downs on poor-performing films such as *The Perez Family* and *Oleanna*, leading to a $21.6 million loss in the fiscal year ended Mar. 31. To secure an additional $15 million line of credit earlier this spring, Goldwyn had to mortgage the company's entire asset base, even throwing in the rights to the stylized version of the elder Goldwyn's name that precedes each Goldwyn release.

Ironically, 72 years ago the elder Goldwyn went to court to keep the rights to his own name from company executives, who said it was an asset of the company Goldwyn was leaving. Those were the days when "A Samuel Goldwyn Picture" meant quality and a big box office. In today's Hollywood, it represents little more than a few hours of entertainment that can be zapped along the I-way.

By Ronald Grover in Los Angeles

Goldwyn's Paradox

MODEST FILMS...

BOX OFFICE SALES OF 1995 SAMUEL GOLDWYN FILMS

The Perez Family	$2,721,615
The Sum of Us	752,659
Wigstock	300,001
Rampo	198,059
The Last Good Time	65,081

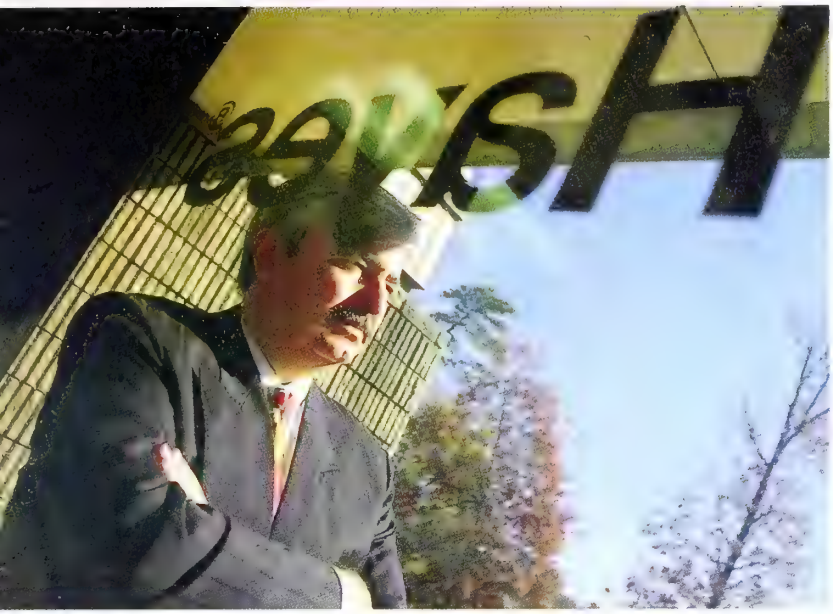
DATA: ENTERTAINMENT DATA INC., COMPANY REPORTS

...BUT A BIG VAULT

AMONG THE 850 FILMS IN GOLDWYN'S LIBRARY:

- *Wuthering Heights**
- *The Pride of the Yankees**
- *Oklahoma!*
- *South Pacific*
- *Guys and Dolls**
- *Babes in Toyland*

*Rights last only until 1998



LOSS OF CONTROL: *Hayes will be vice-chairman of the merged outfit*

OPLE

HE KING OF MODEMS AS TO HANG UP

nnis Hayes rode high on the PC wave–till rivals undercut him

n June 19, Dennis C. Hayes sat in shirtsleeves in a secluded conference room at Atlanta's Hartsfield port, staring across a table at the brass of a rival company one-third size of his own. This was Hayes's erloo, his worst nightmare. After hours of negotiations, he had agreed ive up control of Hayes Microcomer Products Inc., the company he ded and largely owned.

en days later, Boca Research Inc. ounced it would buy Hayes Microputer for $48.9 million in stock plus assumption of $42 million in debt. deal ended Hayes's spectacular enreneurial run in the $1.6 billion th American modem market. His pany had identified a niche, then rid- the personal-computer wave to suc-. But as clones and low-cost conders seized the market, Hayes rocomputer was slow to respond to e competition. Then, lack of sophisted financial management, operational steps, and its founder's blind drive ed the company's fate.

UITION." Dennis Hayes, 45, is a soften, reclusive man. Tall, beefy, and ggy-haired, he has a passionate appe- associates say, for control and priva- He started Hayes Microcomputer in 7: During time off from his job as a munications engineer, he and coker Dale Heatherington tinkered on Hayes's dining-room table with electronic parts that allow computers to talk to one another on phone lines. The two Georgia Institute of Technology grads traded Heatherington's $3,000 in savings for components to build the gadgets, marketing them in computer hobbyist magazines.

The enterprise soon outgrew Hayes's house, moving to Norcross, an Atlanta suburb. And in 1981, Hayes Microcomputer hit it big with the launch of Smartmodem 300, which automated the process of dialing and answering calls. By 1984, the company was pulling in $150 million in revenues. To keep up with booming demand, Hayes took a huge financial gamble, spending millions to add capacity and automate plants —against the recommendation of his chief financial officer at the time, associates say. "Dennis tended to run the company based on intuition," recalls John A. Copeland, a former Hayes vice-president for technology.

A band of upstarts, however—such as U.S. Robotics, Zoom Telephonics, and Boca Research—were appearing on the modem scene with products offering high performance at far lower prices. Before long, consumers were choosing "Hayes-compatible" knockoffs over the high-priced originals. "If you could get a Mercedes for the same price as a Chevrolet, what would you buy?" Hayes asks in hindsight.

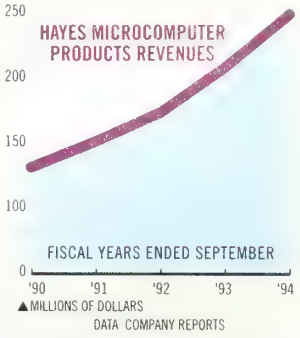
TOO LATE. He tried to fight back. In 1989, Hayes bought a low-price competitor, Practical Peripherals Inc. He launched an overseas expansion, hoping to piggyback PC growth overseas. Then, just as its two-year-old economy line began to make inroads in mass-merchant outlets, Hayes was hit with production snafus that choked its output. Profits thinned dramatically, finally turning into losses in the quarter that ended in September, 1994. By November, the company had $15 million in cash but $45 million in trade debts. Its bank refused to lend the additional $10 million that Hayes thought the company needed to survive. On Nov. 15, Hayes filed for Chapter 11 bankruptcy protection.

Even in bankruptcy, Hayes thought he could save the company on his own. He consolidated manufacturing and replaced subcontractors that delivered late. Hayes's revenues continued to grow (chart), and profits returned. But the results didn't come fast enough. Finally, in April, under pressure from creditors—which included Rockwell International and AST Research Inc.—the entrepreneur brought in investment bankers Robinson-Humphrey. The firm, which had worked for Boca on a secondary offering, put the two companies together.

The airport meeting set in motion a merger that promises to create one of the industry's largest players. Dennis Hayes will be vice-chairman of the merged company, which still will bear his name, and his 14.7% stake will be worth $43 million. But the transaction will value Hayes Microcomputer at just 36¢ for every $1 of sales. The market capitalization for rival U.S. Robotics Inc., by contrast, is five times sales. "You look at that and say: 'Gee, did Dennis leave that on the table?'" says Rod Dowling, director of corporate finance at Robinson-Humphrey Co. Years ago, Dowling, like others, practically begged Hayes to take his company public. Hayes's desire for privacy got in the way. It cost him dearly.

By Maria Mallory in Atlanta

GROWING TO THE END



PHOTOGRAPH BY ROBERT SOWBLACK STAR CHART BY RAY VELLA BW

EDITED BY KEITH H. HAMMONDS

A BANK-EAT-BANK WORLD

WHEN FIRST CHICAGO ANNOUNCED on July 10 that it was acquiring Midlantic in a $3 billion deal, one wag joked that the hungry banker—a phrase that Midlantic used for years in its advertisements—was itself getting swallowed up. But just two days later, when First Chicago and Detroit's NBD Bancorp agreed to a merger of equals valued at over $5 billion, even the jokers took notice. The pace of bank mergers this year is feverish, and banking analysts say the number of additional candidates is large. On bankers' short lists: Bank of Boston, Pittsburgh's Integra Financial, and UJB Financial. And on July 12, Chase Manhattan stock jumped 3% on an analyst's observation that a merger with Chemical would be "compelling."

ADM: HOW SWEET IT ISN'T

ARCHER DANIELS MIDLAND hasn't yet been accused of wrongdoing, but the incipient antitrust investigation of its food-ingredient and high-fructose corn-syrup businesses could take years. So far, Cargill, CPC International, Tate & Lyle's A. E. Staley Manufacturing unit, and Ajinomoto's Heartland Lysine—in addition to ADM—have received subpoenas. More subpoenas could follow, and ADM personnel losses could mount if executives under scrutiny decide to cooperate with the government. ADM's stock has dropped 15%, to 16¼, since the investigation surfaced. "There will be a cloud over the stock for some time," concludes Dain Bosworth analyst Bonnie Wittenburg. ADM declines to comment.

SERVICE CORP.'S PALL OVER EUROPE

THE WAL-MART OF AMERICAN undertakers, Service Corp. International in Houston is massing in Europe. On July 10, it acquired two funeral divisions of French conglomerate Lyonnaise des Eaux for $796 million. The buys include 950 mortuaries in France and a smattering of properties from Switzerland to the Czech Republic. The divisions, with revenues of $568 million last year, will boost Service Corp. to about $1.5 billion in sales in '95.

TWIN WOES AT GEMINI

TURMOIL CONTINUES TO pound once-booming Gemini Consulting. Chief Executive Daniel Valentino was ousted on July 6, say sources inside the firm, amid reports that revenues could plummet 20% or more in 1995, down from last year's $551 million (BW—June 26). Gemini denies that Valentino was forced out, and Valentino was unavailable for comment. Pierre Hessler, vice-president of Gemini's Paris parent, Sogeti, has been named interim CEO. Hessler needs to find a permanent replacement quickly to stem a tide of defections. "I'm getting more unsolicited résumés from Gemini than any other consulting firm in the U.S.," reports executive recruiter Peter Meder.

TICKETMASTER BREATHES EASIER

TICKETMASTER IS FINALLY off the hook. The Justice Dept.'s antitrust division announced on July 5 that it was closing its year-old inquiry into allegations of anticompetitive practices at the company. The high-profile investigation had focused on whether Ticketmaster's stranglehold on choice U.S. concert venues and promoters was illegally driving up ticket prices and driving out the competition. Justice says it will continue monitoring competition in the ticketing industry, and Ticketmaster still faces numerous private antitrust lawsuits.

ET CETERA . . .

- United Parcel Service won a $1 billion, five-year contract to tote J. C. Penney's bags.
- Kohlberg Kravis Roberts will enter health care, buying a Merck mental-health unit.
- Fidelity's Magellan Fund hit $50 billion in assets, up 25% in just three months.
- New Burger King: Robert Lowes will head Grand Metropolitan's fast-food chain.

HEADLINER: J. KERMIT CAMPBELL

AN EMPTY CHAIR AT HERMAN MILLER

J. Kermit Campbell seemed the ideal person to head Herman Miller, the office-furniture company whose Zen-like approach to employee participation has become required reading for MBA candidates. Only weeks after joining as CEO in 1992, Campbell was penning essays extolling employee risk-taking and stating: "A good manager's final responsibility is to stay out of the way."

Now, two months after becoming chairman, Campbell is out. He resigned unexpectedly on July 11, apparently after overdue attempts to reduce corporate overhead rankled directors. Since May, more than 130 jobs have been eliminated, the company's first downsizing. Herman Miller said Campbell resigned "to pursue other opportunities." Directors, holed up at the company's lodge, were unavailable. Campbell didn't return calls.

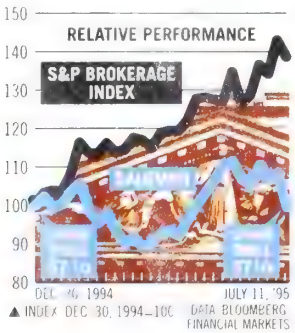
The need to cut costs is real. Although Herman Miller has posted big sales gains since 1992, "expenses have exploded," says Tinh Bui, an analyst at shareholder Ariel Capital. In fiscal 1995, profits plunged 89%, to $4.3 million.

By Susan Chandler

CLOSING BELL

SORRY SOLLY

Investment bank stocks have soared this year—with one big exception: On July 11, Salomon forecast a $65 million second-quarter loss. Shares fell 9%, to 37¼. Still, Solly is trading near the top of its historic price-to-book ratio. That could change if the aura of 20% shareholder Warren Buffett dissipates. "If the Buffett factor wears off, the stock could trade as low as the mid- to high 20s," says Sanford C. Bernstein analyst Guy Moszkowski.



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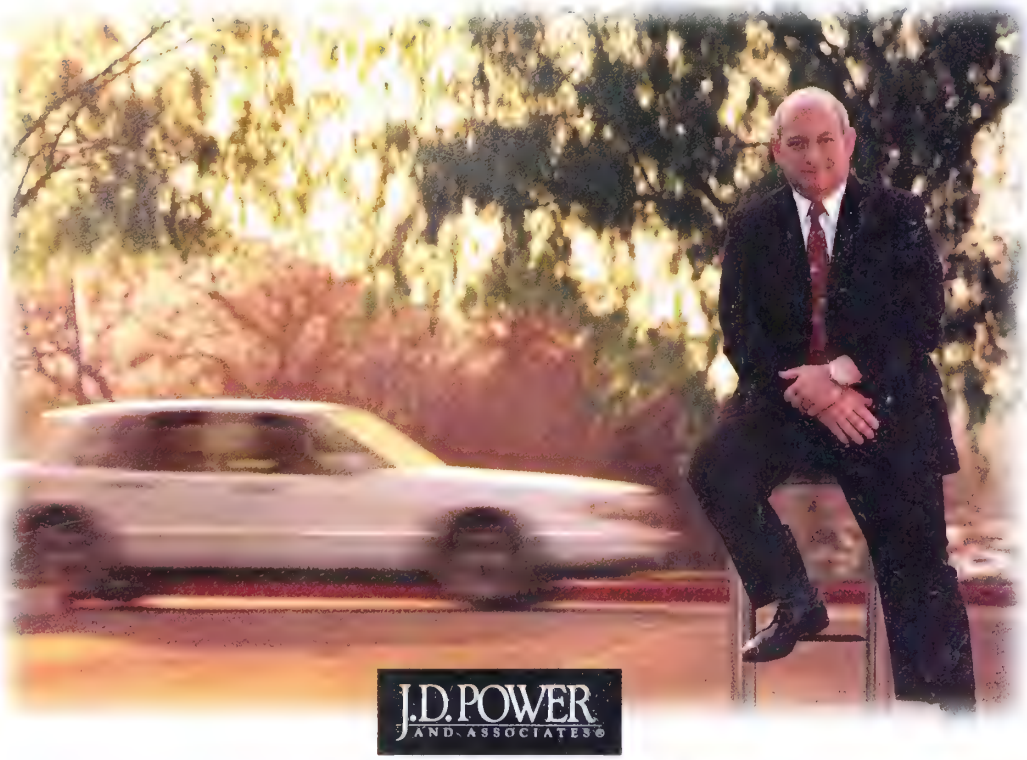
J.D. Power and Associates Drives Decisions with the SAS® System



Will the cars on the drawing board today meet consumer demands of tomorrow? That's the question facing J.D. Power and Associates. The answers are coming from the SAS System.

"We produce a monthly forecast of car and truck sales for about 300 different vehicles," says Jon Rosenthal, Manager of Automotive Forecasting for J.D. Power and Associates. "Each vehicle is forecasted by month for five years beyond the current year. Right now I'm forecasting through the year 2000."

The SAS System Fits Our Business

"The SAS System is the fuel behind those forecasts...our software of choice for analyzing sales, economic, and auto industry data and then reporting what we've learned," adds Rosenthal. "Before the SAS System, much of the forecasting was done by hand. To make our forecasts credible, we had to have a credible system. One that made it easy to build applications and put them to work across our computing environments. We've got minis, Macs, desktop publishing, and a lot of spreadsheets. The SAS System fits the way we do business."

The Bottom Line is Information

Now that the forecasting model is up and running, Rosenthal and his staff are using the SAS System to build an interactive database. "The Power Information Network will allow an auto dealer or manufacturer to go online and get market information," Rosenthal explains. "When released, subscribers will be able to select from a long menu of reports and data. The versatility of the SAS System is crucial in developing the reports."

"The bottom line is this: applications are being developed with the SAS System that will deliver the most up-to-date information to those who make decisions for the automotive industry," says Rosenthal. "If manufacturers and dealers can get their hands on accurate market information and predictions, they have a much better chance of meeting customers' needs down the road."

To receive a SAS System Executive Summary, give us a call or visit us on the World Wide Web at http://www.sas.com

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TED BY OWEN ULLMANN

VHY BUSINESS DOESN'T BACK HE GOP BACKLASH ON THE OZONE

emember the ozone hole? Eight years ago, the U. S. and scores of other nations agreed to phase out chloro- fluorocarbons (CFCs) because they gobble up the gos- er layer of ozone that shields the earth from harmful violet light. Since then, industry has invested several bil- dollars to produce substitute chemicals and design CFC- systems. Problem solved.

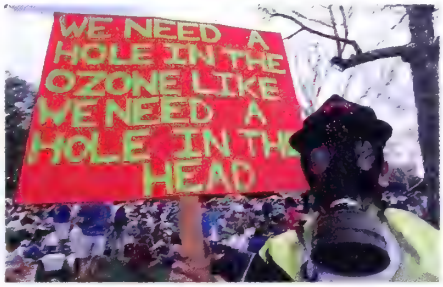
Vell, not exactly. Challenging the data and most experts, a band of maverick scientists and economists is attempting unch their own hole in the scientific evidence behind the They claim the ozone scare is a hoax and the CFC ban a y mistake driven by antigrowth ideo- es. Such talk is picking up surprising ical support among GOP stalwarts in gress who are on an antiregulation The result: Environmental groups bracing for a bruising political fight thought had already been won.

ouse Majority Whip Tom DeLay of as is seeking to repeal provisions of Clean Air Act that implement the ban. Representative John T. Doolit- R-Calif.) wants to put off the dead- for a total ban on production from 1, 1996, to 2000. And Representative Dan Miller (R-) is leading a move to overturn a coming ban on the e-destroying pesticide, methyl bromide. "The backlashers having a hell of a run," sighs John Passacantando, execu- director of the nonprofit advocacy group Ozone Action.

HOLE." This revisionism could delay the phaseout of some e-destroying chemicals, and backlashers hope for outright al of the CFC ban. That has infuriated environmentalists, ntists, and execs who have developed CFC-free technology. e time to disagree with the science was 10 years ago," es Simon Oulouhojian, president of the Mobile Air Condi- ing Society. "The commitment has already been made."

efenders of the CFC ban are also incensed over what they see as a misinformation campaign. One leading attacker, Paul Craig Roberts of the Cato Institute, a BUSINESS WEEK columnist who has argued against a CFC ban in this magazine, asserts that a diminished ozone layer poses no danger. He points to a study by Brookhaven National Laboratory biophysicist Richard B. Setlow showing that deadly melanoma skin cancer in fish is triggered largely by a form of ultraviolet light, UV-A, not blocked by ozone. Nonetheless, a CFC production ban will cost hundreds of billions of dollars, Roberts says.

Wrong on both counts, most scientists say. Studies do show links between melanoma and ozone-limited UV-B. And UV-B causes other skin cancers and depresses the immune system. Even Setlow grouses that backlashers misinterpret him: "There's no hole in the ozone argument," he says.



IT AIN'T OVER YET: *Earth Day rally*

Ozone-scare skeptics also overstate compliance costs by assuming most CFC-based air conditioners and other equipment must be replaced or retrofitted immediately. Rather, an ample supply of recycled CFCs makes an overnight conversion unnecessary. In fact, a ban may save money in the long run. Air-conditioning giant Trane Co. has improved the energy efficiency of its CFC-free commercial-building chillers by 40% over older models—conserving enough energy to pay for new devices. "A building owner will save money," explains James Wolf, vice-president at American Standard Inc., Trane's parent. "I see the ban as an economic benefit, not a liability."

With such views in Corporate America, DeLay and his GOP allies may rally little business support. "Industries aren't interested in turning back," says Kevin Fay, director of a coalition of CFC makers and users that includes DuPont Co. and Detroit's Big Three. But given the GOP's zeal to gut regulation, environmentalists will need to scramble to save the ozone layer—yet again.

By John Carey

CAPITAL WRAPUP

AN'S INVISIBLE HAND?

Who really nixed Alicia Munnell as member of the Federal Reserve ard? It looked as though Senate epublicans forced President Clinton back off from naming the Treasury onomist. But Clinton insiders be- ve the mastermind of the anti-Alicia ovement was Fed Chairman Alan eenspan, no Munnell fan during her ys as research director of the Bos- n Fed Bank. Clinton's advisers sus- ct Greenspan whipped up opposition hong bankers and GOP senators.

TAX (CUTS) AND SPEND

▶ Congressional Republicans have no plans to pay for their proposed $245 billion tax cut with spending reductions. Most of it will be financed with a $170 billion "fiscal dividend"—lower interest rates that, in theory, would be triggered by movement toward a balanced budget in 2002. The rest of the money would simply be borrowed, adding to the $5 trillion national debt. Democrats wonder how the GOP will get its fiscal bonus by financing tax cuts with more red ink.

TOKYO ROW

▶ For all the initial public praise President Clinton heaped on the June 28 auto trade deal with Japan, he's fuming over the lousy news coverage the accord received. Advisers had assured Clinton it would be played up as a big U. S. win, but when most media called the agreement a weak deal for Washington, Clinton hauled in White House trade hand W. Bowman Cutter and chewed him out, insiders say. The upshot: Clinton may shy away from any more high-profile brawls with Japan.

RON HAVIV-SABA

HONG KONG

THIS TIGER HAS A THORN IN ITS PAW

Job anxiety is growing in Hong Kong as service-sector work starts to flow to mainland China

Hong Kong executives on the go can't do without beepers to get important messages. The booming demand for such services has created lots of jobs—more than 30,000 people now work as paging company operators. But last month, the companies received permission to service local calls through lines to southern China, where wages are only $260 per month, vs. $1,100 in Hong Kong. "Nearly the whole industry will move to China," warns Wong Chi-mei, spokeswoman for the operators union. "And following pagers, others will move, too."

Job worries are hitting Hong Kong. High rents and labor costs are making the city less competitive, leading more employers to move low-end white-collar jobs across the border. Having managed the transition from a manufacturing economy to a service one just 10 years ago, the Asian tiger now faces another major restructuring as its economy becomes more mature.

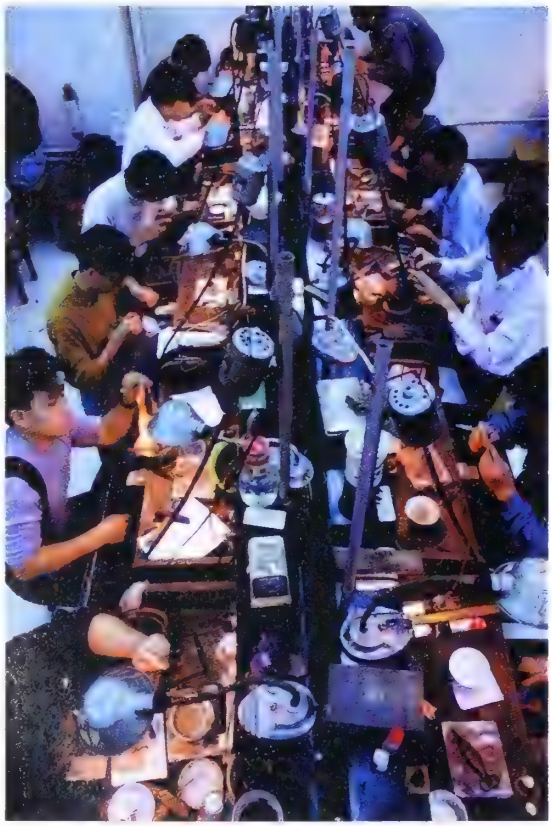
DODGED BULLET. The earlier transition didn't cause much pain. While some 500,000 factory jobs disappeared, industries such as finance, tourism, and trade more than made up for them. Today, Hong Kong has some 1.5 million workers in the service industry, compared with just 400,000 in manufacturing.

But job growth in those industries has fallen off. In May, the unemployment rate hit an eight-year high of some 3%. Although low by Western standards, it caused alarm in Hong Kong, where full employment has long been the norm. Especially worrisome was a first-quarter decline in employment in finance, which fell 2.2%, and trade and retail, down 0.7%. "Hong Kong is starting to have core unemployment," says Daryl Ho, an economist at Jardine Fleming Holdings Ltd.

The worry among many in Hong Kong is that the same forces that drove away factory jobs are starting to eat away at service jobs, too. "There's an increasing availability of people elsewhere to do these jobs," says Ian Perkin, economist at the Hong Kong Chamber of Commerce. Accounting, personnel, and data processing are particularly vulnerable. Hongkong & Shanghai Banking Corp. and Cathay Pacific Airways have moved some back-office work to China.

The tightening has led the Hong Kong government to move away from its traditional *laissez-faire* approach to the economy. While the government has had an employee retraining program since 1992, it's now stepping up efforts to assist the growing number of service-sector workers in search of jobs.

Labor activists want more. "The government should block the paging companies from moving," says Wong. Labor groups want the government to suspend a plan that lets foreigners work on construction projects such as the new Chep Lap Kok airport. They also want Western-style unemployment insurance to replace the current system, which doesn't offer assistance to laid-off employees if others in their family work. Only 5% of Hong Kong's unemployed qualify.



MAKING JEWELRY: *Many factory jobs have moved*

WORRIED Joblessness of 3% is low by Western standards, but it's alarming where full employment is the norm

IMPORTS. Such moves are opposed by the business community. "Hong Kong has been a successful place because people rely on themselves and not social welfare," says Ma Chow, executive director of the Employers Federation of Hong Kong, which also opposes efforts to restrict the entry of legal foreign workers. At the new airport site workers are putting the finishing touches on dormitories with 6,800 beds—mostly for workers brought in from China and Southeast Asia.

Despite its problems, the employment picture in Hong Kong is hardly dire. While some 80,000 have no jobs, there are also 60,000 vacancies, mostly in higher-end jobs that require more skills. Even so, the long-term structural changes aren't going away. Political rhetoric is likely to get more heated in the fall with the approach of legislative elections. "Unemployment will be the issue," pledges Lee Cheuk Yan, chief executive of the Hong Kong Confederation of Trade Unions and a member of the Legislative Council. Hong Kong residents won't need beepers to get that message.

By Bruce Einhorn in Hong Kong

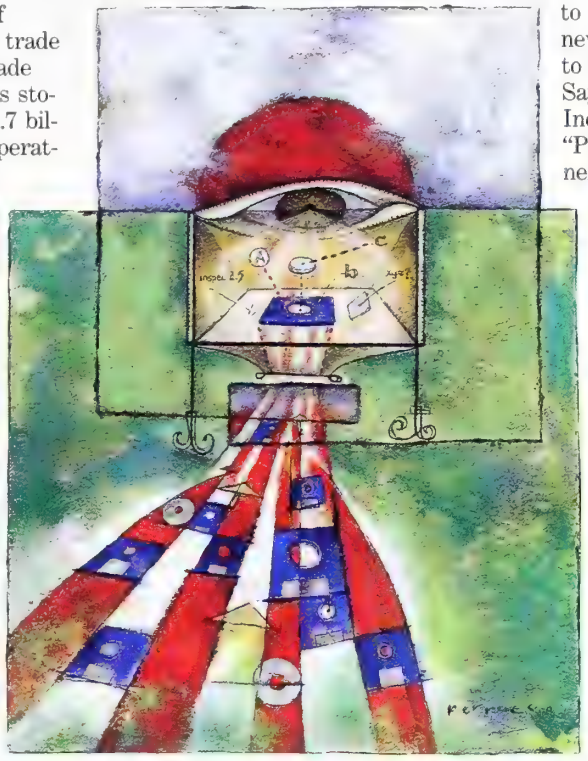
COMMENTARY

By Robert A. Lemos

IS JAPAN GETTING SET TO ZAP U.S. SOFTWARE?

Against the grim backdrop of closed markets and pitched trade battles with Japan, U.S.-made software has been a rare success story. The Japanese snapped up $2.7 billion worth last year, including operating systems. That's 32% of the country's market for all packages sold off the rack.

Now that may change. On July 7, 20 American software-related companies sent a letter warning U.S. Trade Representative Mickey Kantor of an alarming move by Japan's Ministry of International Trade & Industry (MITI). In October, MITI will start requiring that software products entering Japan be certified by agents of the Japan Accreditation Bureau (JAB). The concern: Japanese administrators can rig this system to study how U.S. software is designed. The government could also use certification as red tape to delay bids by U.S. companies on public contracts.

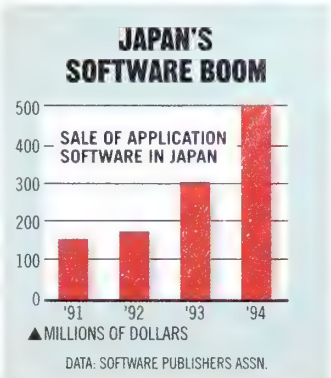


TRADE SECRETS. So far, the U.S. Trade office has remained aloof. That's a mistake. The U.S. government willingly flogs American cars in Japan, though they have no proven appeal there. Why not do the same for software, when demand is exploding? In this case, all anyone asks is that Washington sound a warning.

For years, they have used ingenious means to support domestic industries. With their latest proposal, Japanese administrators are adding a new, sophisticated twist to a familiar protectionist ploy. The dispute revolves around a set of international quality standards, known in tech-speak as ISO 9000. These standards aim to unify different countries' ideas on how products should be manufactured. That's fine, if your company makes vacuum cleaners or radial tires. But software doesn't spring from purely logical or methodical design. It is born of creativity, with a dash of black magic. That's why all countries—until now—have taken a more flexible approach to software certification, with an eye to protecting trade secrets. ISO quality standards—if they have been applied at all—have been voluntary.

At JAB, however, officials have ignored most of these concerns, and created a unique Japanese standard. That action could give the bureau awesome control over the auditing and "registration" of U.S. products. JAB officials insist that their intentions have been misread. They claim that the program is in tune with international norms. But when Japan floated its idea at an international ISO meeting in January, not one other member supported it.

Other countries using ISO standards let their neighbors carry out their own certification. It's done by auditors who inspect a company's manufacturing processes and declare them "compliant." But because Japan's standard will be unique, other governments won't be able to appoint their own auditors, or pre-clear products that are bound for Japan. Japanese auditors will do all the inspections and get unprecedented access to U.S. software secrets—from new versions of Microsoft Windows to the "microcode" in Boeing 747s. Says Dale Misczynski, Motorola Inc.'s vice-president for quality: "People are concerned about Japanese auditors going through their software design process."



PATTERN. Few American electronics executives doing business in Japan are surprised by MITI's move. In the late 1980s, Japan's postal ministry tried to close down IBM Japan's international networking business. The method: Bureaucrats tried to enforce a voluntary international standard, different from the one IBM's customers already used. No other country followed suit, and Japan dropped the plan.

In 1993, the Education Ministry set specifications for public-school purchases of personal computers that uniquely favored NEC Corp. and Fujitsu Ltd., at the expense of Apple Computer Inc. A few months later, the Cultural Affairs Ministry suddenly proposed legalizing the reverse-engineering of software—a move that would facilitate Japan's popular game of technology catch-up. The ministry later backed off.

In the current fight, even JAB officials admit they don't believe software inspection will improve product quality. But they claim their software inspections will further the cause of global manufacturing. If history is any guide, they may withdraw this ill-conceived proposal before it snowballs into a trade skirmish. But it is disturbing that Japanese bureaucrats keep testing regulatory manipulation on poorly defined high-technology frontiers. Even if Japan backs off, trade friction over software is here to stay. Next time, Japan's execution may be more skillful.

Robert Lemos has been covering technology in Japan since 1990.

MEXICO

WANTED: BUYER TO PULL AIRLINE OUT OF DEEP DIVE

Aeroméxico, whose last boss fled, primps for foreign investors

Two years ago, Aeroméxico was poised to become Latin America's dominant airline. It had just taken control of its main domestic competitor, Mexicana, and was advancing in the southern hemisphere. But the airline has been brought to the brink of collapse by the combination of Mexico's economic crisis and the ambitions of its former chairman, Gerardo de Prevoisin, who has fled the country amid charges that he misappropriated funds.

Now the airlines' creditors, owed $1.5 billion, are campaigning to unload the two carriers. Their hope is to entice a foreign airline to inject needed cash and upgrade operations. But first the banks have to clean up the airlines' debt-ridden books. For starters, they plan to swap the roughly $500 million in debt they hold in Aeroméxico for new equity that will bring their stakes in that carrier up to around 90%. Their plan cleared a major hurdle on July 10, when bondholders agreed to the restructuring of $137.5 million in debt.

BACK ON TRACK. After this financial face-lift, a foreign carrier might be tempted to buy in. While both airlines need new aircraft, they offer long-term growth potential once Mexico's economy gets back on track. And they have brought down operating costs to levels comparable to those of U. S. airlines.

But for now, both airlines are reeling. The peso devaluation has been a killer. It jacked up the costs of their dollar debt as well as dollar-denominated expenses. Aeroméxico reported losses of $100 million in the first quarter, on sales of $170 million. Mexicana, in which the government still holds 34%, lost $150 million, on revenues of $146 million.

These problems haven't discouraged window shoppers. British Airways, Air Canada, and Continental all have expressed interest, says Eduardo García-Lecuona, financial planning director at Grupo Financiero Serfín, which holds $140 million in airline debt. Although British Airways PLC won't comment on reports that it is holding talks with Mexican investors, sources say BA wants to get into Mexico so it can funnel Latin American passengers to its transatlantic flights from U. S. cities.

Because a foreign airline can hold only 25% of a Mexican carrier, international players probably will enter the bidding through a Mexican-led investor group. Among such groups, the one with the most operating experience is headed by Guillermo Heredia, a former director general of Aeroméxico, and former Mexicana CEO Ricardo García Sainz.

Heredia would bring a solid track record to any management team. As director general in the early '90s under de Prevoisin, he achieved a 96% on-time record, one of the world's best. Aeroméxico overtook Mexicana to become the country's top carrier, and it now claims 40% of the market, compared with Mexicana's 29%. De Prevoisin, an insurance magnate, had bought the then bankrupt airline in 1988 as part of the government's privatization endeavors.

A fare war with discount airline Taesa, launched in 1988, was a disaster for all three. But Mexicana was worst hit. Meanwhile, such U. S. lines as Continental Airlines Inc. and United Airlines Inc. expanded aggressively into Mexico, dominating the routes between the two countries. De Prevoisin bought a controlling stake in flagging Mexicana in 1993. He further extended himself when he paid $15 million for Aeroperú the same year. That deal brought a nonexistent fleet and labor problems.

"NO PROOF." Last September, the banks ousted de Prevoisin when he failed to come up with cash to save Mexicana. He quickly fled, probably to France, where he holds citizenship. The banks filed suit against him, alleging that he put up Aeroméxico cash for loans to himself and used them to increase his stake in the airline. In December, Mexican authorities issued an arrest warrant for de Prevoisin on fraud charges. His lawyers say the charges are a plot by the banks to get control of Aeroméxico. "They are demonizing him," says Juan Salas, a de Prevoisin lawyer. "There's no proof that he has broken the law."

Despite the furor over its former boss, analysts think Aeroméxico's dominant position will bring it a suitor. "My own bet—assuming that the balance sheet has really been cleaned up—is that Aeroméxico ought to be an attractive acquisition for a major airline," says Robert Booth, a Latin aviation consultant in Miami. That is what the beleaguered banks and would-be airline brokers hope.

By Elisabeth Malkin in Mexico City

AEROMEXICO'S CHECKERED HISTORY

1988 Sold by the government to an investor group led by Gerardo de Prevoisin.

1993 Gets control of competitor Mexicana and buys 47% of Aeroperú for $15 million.

1994 Taken over by creditor banks, which force de Prevoisin to resign and accuse him of embezzlement.

1995 Plans to convert $500 million of debt to equity and seeks investor.

DATA BUSINESS WEEK

From now on, the future is in our hands.

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What kind of a place is Allstate growing to be?

We have the size, the strength and the products in place to grow our business aggressively.

Allstate is the nation's largest publicly traded personal lines insurance company. In auto and homeowners insurance, our market share is about 12%, which makes us the second largest writer of these lines. We are the 13th largest life insurance company for ordinary life insurance in force. Our products are sold by 14,500 full-time agents and 2,000 independent agencies dedicated to helping customers meet their needs and providing superior service.

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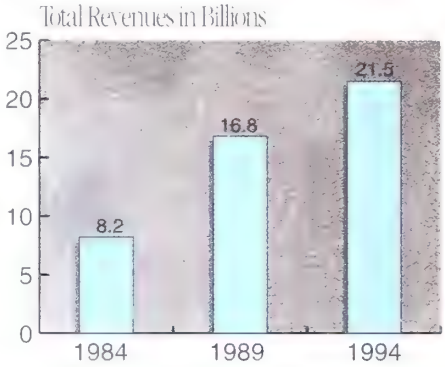

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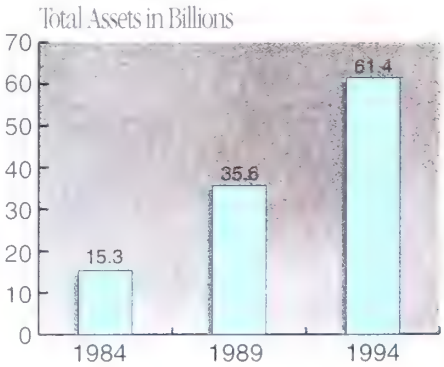

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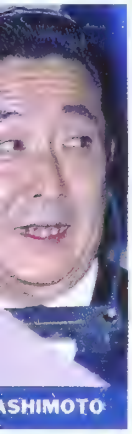
ED BY STANLEY REED

JAPAN, IT LOOKS LIKE
JT WITH THE NEW, IN WITH THE OLD

er two years of patiently waiting in the wings, Japan's iberal Democratic Party could be on its way back to reaining the Prime Minister's slot. Since last summer, DP has been cohabiting with Prime Minister Tomiichi yama's Japan Socialist Party in a bizarre coalition govent. But the Socialists appear headed for a humiliating in Upper House elections on July 23. That could open ay for the LDP, which has the biggest bloc in the more tant Diet, to place one of its own in the top job.

e revival of the LDP indicates that the once promising reform movement in Japan is, if not dead, in deep trouble. The corruption-riddled LDP seemed mortally wounded in 1993 when it was ousted after four decades in power by a group of renegades led by former LDP kingpin Ichiro Ozawa. But Ozawa's plans to radically reform Japanese politics have failed miserably—in part because he and his cohorts were also tainted by money politics. The two Prime Ministers Ozawa picked were forced out of office: Morihiro Hosokawa by unsavory revelations and Tsutomu Hata in a no-confidence vote.


ASHIMOTO

Ozawa's reforms were basically designed to give more power to the voters and the politicians they elected. But his shortcomings, combined with a weakened ave left the government bureaucrats with more control ever over economic policy. With little political direcowever, the bureaucrats have been unwilling to take the neasures needed to ease Japan's bank crisis or kick-start conomy. Ozawa, who formed the New Frontier Party last nber, has been calling for a big-spending "New Deal" to he deflation in real estate and equity prices that Hoso- says threatens a "global financial panic," but so far nessage has not caught on with the voters.

e possibility of an LDP return is heightening interest in arty's leadership contest scheduled for the end of sum- The party race is likely to boil down to a battle between two stalwarts: Foreign Minister Yohei Kono and International Trade & Industry Minister Ryutaro Hashimoto. Although Hashimoto has been in the headlines lately, Kono, 58, is a more powerful figure in the LDP as he is now the party's chief and enjoys the backing of a strong faction controlled by former Prime Minister Yasuhiro Nakasone.

Hashimoto, 57, is something of a New Age politician whose irreverent handling of U. S. trade negotiator Mickey Kantor in the recent auto talks scored big points with the Japanese public. But Hashimoto's penchant for blunt speaking hurts him with LDP elders. If Hashimoto does prevail, he is likely to take a strongly nationalistic stance in upcoming trade disputes with the U. S., which would probably prefer dealing with Kono.


LDP CHIEF KONO

"LOW CREDIBILITY." If the LDP manages to regain the Prime Minister's office, it won't be to thundering applause. The LDP boasts that it can get things done, but Japanese big business is frustrated with the present coalition's inability to deliver on long-promised deregulation. Japan's apparent slide back into recession also has the country's corporate chiefs very edgy. At the same time the public sees the pairing of the once bitter rivals, the LDP and the Socialists, as proof that the politicians have no scruples left. "Two years ago, there was great hope" Japan would change, says Yotaro Kobayashi, CEO of Fuji Xerox Co. "Now, politicians' credibility is very low."

Such sentiments have helped to fuel a populist movement of sorts. Back in April, voters elected two television comedians, both independents, to top posts in the cities of Tokyo and Osaka. But these newcomers don't have the money to score big on the national level anytime soon. The LDP is slipping back into the driver's seat—almost by default. That probably rules out the kind of dramatic change many think Japan needs.

By Brian Bremner in Tokyo

GLOBAL WRAPUP

RTH KOREAN SPRING?

orth Korea watchers believe Kim g-Il, 53-year-old son of the late ngman of the secretive Communist on, has finally taken power, and this is good news—at least for . They say Kim's recent high-pro- appearances at events marking the anniversary of his father's death n he is firmly in command. The latthinking in South Korea is that the nger Kim will be relying on a constituency that has escaped international attention. This is the so-called "Three Revolutions" group of influential North Koreans in their mid-40s. They are so named because of their desire to make dramatic strides for their country—in technical knowhow, ideology, and culture.

Kim is expected to continue pushing a gradual economic opening, to help stave off severe hardships at home. South Korea and Japan are sending rice to help feed hungry North Koreans, the U. S.-brokered nuclear power deal appears to be on track, and direct North-South business deals are warming up.

But the South is still on guard. One fear is that resentful older generals could trigger military tensions with the South. The worst fear in Seoul is that Kim's opening, no matter how controlled, will set off popular demands for greater economic gains, sparking chaos.

By William J. Holstein in Seoul

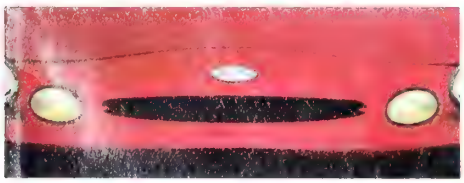
(L TO R) PHOTOGRAPHS BY FRED PROUSER/REUTER, ERIKO SUGITA/REUTER

THE SHAPE OF A NEW MACHINE

Ford spent billions remaking the Taurus. It's jazzy, but is it too pricey?

FRONT END

A softer, rounded line with oval headlights and a sculptured hood.



ENGINE

Under the hood, the base model gets an improved six-cylinder engine that's quieter and vibrates less. The top-of-the-line model offers a new multivalve V-6 for a smoother, more powerful ride.

CONTROL PANEL

Controls for radio, heat, and air-conditioning have been built into a futuristic pod that plays off the Taurus' oval exterior.

was a balmy day in May, 1990, and Richard L. Landgraff vas squirming in his seat. The Ford Motor Co. executive ad come to Atlanta to listen in as Honda Accord owners aved to market researchers about their cars. In dismay, Landgraff watched as the Accord owners bragged about e features Honda had loaded into its automobiles. The was so taken by their cars, many drivers even swore had air bags—which, in fact, they did not. "They were in-t," Landgraff remembers ruefully.

Less than a year after that daunting lesson, the 55-year-old Landgraff would take over one of the toughest and most coveted jobs in Detroit: overseeing the redesign of the next Ford Taurus, the most popular car in America. Since its 1986 launch, the Taurus has been the pacesetter for U.S. auto makers. The sleek family car helped bring Ford back from the financial brink—and by demonstrating that Detroit could again build stylish cars, it helped revive the entire U.S. industry.

But as Ford embarked on its redesign, Landgraff and the team he led upped their own ante. Sure, the original Taurus had succeeded in drawing millions back into American showrooms, but it still wasn't winning many younger import buyers. Landgraff's mandate was clear: The new Taurus was to be the first American car that truly matched the quality and engineering of Japanese rivals. As he listened to the Honda owners

IDSHIELD

ver windshield gives a roomi-ore open feel.

REAR WINDOW AND TAIL END

The stylish rounded rear window repeats the oval design seen in the taillights, headlights, door handles, mirrors, and interior controls. The tapered rear fender continues the look but reduces trunk space. An integrated spoiler built into the trunk lid improves aerodynamics and boosts gas mileage.

INSTRUMENT PANEL

Responding to customers' gripes about a "cheap" plastic look, Ford employed a more expensive process to give its one-piece molded dash a leather-like appearance.

DOORS

Triple rubber seals and inset doors provide a tighter fit, creating a quieter interior.

SIDE PANEL

From the taillights to just behind the front wheel, the entire side panel is stamped in a single piece, eliminating ugly welds and creating a more rigid chassis that improves the ride.

TOP RIGHT: PHOTOGRAPH BY SALE FRAZIER, STUDIO

Team Taurus constantly pitted quality and engineering r

rhapsodize about features that weren't even included on their cars, Landgraff realized just how tough a job he had ahead. "This wasn't going to be a cakewalk," he says wryly.

Five years and $2.8 billion later, Landgraff is about to find out how well he has done. The all-new 1996 Taurus—the first major overhaul since its launch—will hit showrooms on Sept. 28 accompanied by a splashy $110 million-plus ad campaign, Ford's priciest ever.

Cover Story

Many industry insiders think Detroit's No. 2 auto maker has another big hit. The new Taurus features distinctive elliptical styling, its interior is quiet and comfy, and handling is taut and precise. And with early pricing for the most popular model set at $19,390, Ford has dampened fears that high costs would push prices into the stratosphere. Crows Ford Chairman Alexander J. Trotman: "Adjusting for the hyperbole you would expect from me anyway, I think it will be sensational."

It had better be. The Taurus is vital to Ford's future. Thanks to aggressive incentives and fleet sales, it overtook the Accord as America's best-selling car in 1992, and it has held that lead since. Ford sells nearly 400,000 Tauruses annually in the U.S. It leads the family-car segment, the industry's biggest and most ferociously competitive. The Taurus brings in roughly $7.5 billion in sales a year—just over 10% of Ford's U.S. auto revenues of $73 billion. Altogether, Ford counts on the Taurus and its sister car, the Mercury Sable, for half a million vehicle sales annually—a startling 6% of the U.S. car market. Moreover, some 10,000 jobs at Ford—6% of its U.S. total—and 100,000 jobs at 240 suppliers ride on their success. "They're the 'family jewels' of the Ford car line," says Trotman.

GIZMOS GALORE: *Landgraff and engineer Bell in a model of the Taurus' interior at Ford's Design Center*

If it is to keep that position, the new Taurus will have very big treads to fill. After years in which "American design" was synonymous with boxy, look-alike cars, the original 1986 Taurus took the industry by storm. Sporting a sleek, aerodynamic look—with its rounded shape and grilleless front end—the Taurus revolutionized auto styling. It spawned two books and won dozens of major car awards.

ACHILLES' HEEL. It was also a big gamble, but Ford, then deep in a slump, had little choice. Although critics initially derided the Taurus as a rotund "jelly bean," Ford's roll of the dice paid off: Taurus was a huge hit. As soaring sales helped fuel a turnaround, Ford raced past General Motors Corp. to become America's most profitable carmaker.

The redone 1996 Taurus, with its sculptured, curvy look, is another bold design departure. Much has changed inside, too: Top-of-the-line models sport a new multivalve V-6 engine, while the base V-6 engine offers a smoother, quieter ride. The new Taurus is stuffed with little extras. Power windows and variable assist steering are standard, while a weld-free muffler will reduce rusting. Features include a slow-release glovebox door that won't bang passengers' knees and a versatile multipurpose central armrest console. Another plus: delayed power cutoff to some controls, so drivers can roll up power windows even after shutting off the car.

Snazzy enough. Now the question is whether in its zeal to match Japanese engineering, Team Taurus went too far. Landgraff's 700-member team wrestled with tough decisions pitting high quality and engineering against cost. More often than not, engineering won: The Taurus is the latest in a series of higher-priced, feature-laden cars that Ford has launched.

With demand slowing and consumers balking at stiff stic er prices, however, Ford may be inching dangerously close t an affordability crisis. At the same time, the added enginee ing and features Ford built into the Taurus have increase production time, reversing hard-won productivity gains. Th left Ford facing a tough choice: charge more for the Tauru and risk driving away customers, or sacrifice profits.

Moreover, even as Ford raced to catch up, its Japanese r vals have again moved the goalposts: Pressured by the risir yen, they're trimming cost and content. For now, the sk high yen gives Ford some breathing room: A new Tauru with the most popular options will sell for roughly $700 i $1,000 less than comparably equipped models from Hon Motor Co. or Toyota Motor Corp. But Ford faces a bi threat in the redesigned Camry, due out in late 1996. Toy ta is said to be slashing its costs by 20% without eliminatir features (page 66). That should allow Toyota to price th Camry on a par with the Taurus.

So why did Ford add so many costs and features? Trotm knows that for Ford and its flagship, the next 10 years pror ise to be far bumpier. Winning over baby boomers who dri Japanese cars isn't just a matter of pride but one of surviva For all its success, the Taurus has an Achilles' heel: It has do far better drawing older customers back to Ford showroon than in wooing young buyers. As a result, Ford's current cu tomers are aging, and many of the younger car buyers no moving up to family sedans in coming years are dyed-in-th wool import owners. Moreover, Taurus' No. 1 ranking depen on low-margin sales to car-rental agencies and corporate flee

against cost. More often than not, engineering won out

MODEL EXTERIOR? *Gaffka was told to design an "absolute grabber"*

Nearly half of all Tauruses sold go into fleets, while Honda's Accord—the best-seller among retail buyers—gets just 5% of sales from fleets. Ford now aims to cut fleet sales to 40%.

The new Taurus should bring Ford nearer to winning import buyers. "It's their closest shot yet," says *Road & Track* Detroit Editor Ken Zino. In an upcoming review he writes: "The 1996 Taurus moves two, maybe three giant steps toward parity with the Camry."

ll, that progress means Ford is shipping a pricey car just e market is softening—and therein lies its strategic di- a: Although the Taurus is the best of the domestic fam- dans, until now it has not achieved the status that allows Japanese to charge top dollar. To join the top ranks, had to improve quality and add engineering refine- . Yet until buyers are sure Taurus rivals the best, they pay the premium Ford needs to justify its investment. an effort to recoup the $2.8 billion spent on the car, deal- ay, headquarters tried to push through a 7% price hike the current base of $18,135. They got a rude awakening. initial pricing was way too high," says John B. T. Campbell III, a Ford dealer in Garden Grove, Calif. Instead, Ford settled for a 5.6% rise, to $19,150, for the base model, while on the most popular model, prices rose just 2.5%, to $19,390. But on the upscale LX model, which Ford is counting heavily on to lure wealthier buyers, Ford pushed through an 8.7% increase, to $21,680.

"FLABBERGASTED." Ford denies it discussed pricing with dealers. But it's clear that for now, Ford has opted to sacrifice profits for the sake of price. Beryl S. Stajich, a Ford marketing planner, admits Ford has swallowed some of the cost of added features: Stajich says Ford trimmed its planned price by $700 per car. On 400,000 cars, that will cut profit on the new Taurus by some $280 million a year. The move stunned rivals, who had expected far higher prices. "I was absolutely flabbergasted by the Taurus price," says one Chrysler Corp. executive.

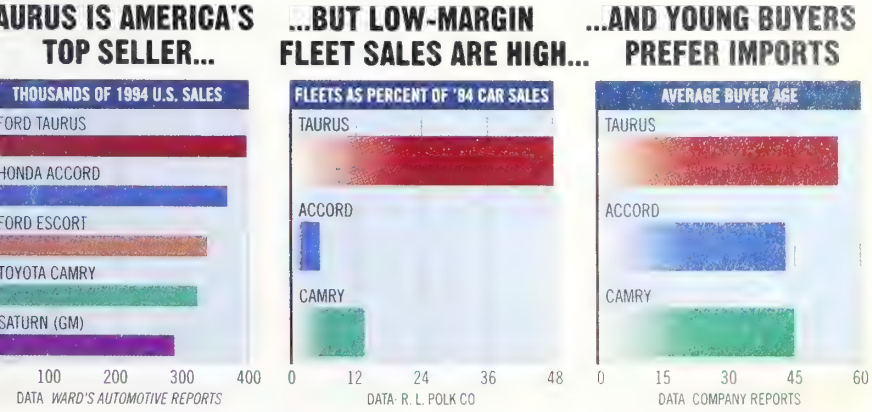
The difficulties of pricing into a slowing market seemed far away in October, 1990, when a handful of Ford engineers began planning for the next Taurus. Ford began with extensive market research. It polled its current customers, studied surveys by J. D. Power & Associates Inc., and conducted consumer car "clinics" with Taurus owners and—more important—those who had opted for a Japanese car. A predominant theme arose: Customers wanted a quieter, smoother car, and they especially disliked Taurus' excessive wind noise.

Still, it wasn't until Ford held a series of clinics for its engineers and executives in the spring of 1991 that ideas began to gel. For Stephen T. Kozak, who became the head of body engineering for Team Taurus, the clinics—in which consumers drove the Taurus and seven domestic and Japanese rivals—were "a monumental eye-opener." It was the first time engineers saw how consumers perceived their cars. One driver showed Kozak how the Taurus' door klunked shut, while the Accord's clicked quietly. Others pointed to ugly exposed welds.

By fall of 1991, the advance team handed off to Landgraff, who had overseen the minor revamping Ford had done on the 1992 model. Soon, 150 team members set up shop in the basement of Ford's Design Center in Dearborn, Mich., nicknamed "the Dungeon," the same quarters used by the original Taurus crew. Banners on the wall declared: Beat Accord.

Team Taurus is Ford's biggest experiment with the team method Trotman plans to make the cornerstone of Ford's global product-development process. Engineers handling chassis, engine, and manufacturing chores work alongside designers, marketers, bean counters, suppliers, and factory-floor workers to design and test the vehicle together. Says Landgraff: "How we managed this program is as important to Ford as the vehicle we engineered."

Some of the innovations seem obvious, such as housing the whole team in the same building. Christopher Clements and



When Taurus marketing executives tried to push through a 7% price hike, dealers balked–and Ford settled for 5.6%

Douglas F. Gaffka, the designers in charge of the Taurus' interior and exterior, respectively, sat side by side. The two exchanged drawings constantly and critiqued each other's work as they went along. It shows: The new Taurus avoids the mix-and-match dissonance of many American cars. Instead, the ovoid styling so prominent on the outside is echoed throughout the interior in everything from the rounded radio-control panel and air-conditioning vents to the elliptical door handles.

Cover Story

The team started out resolving to build the best possible car, but quality kept bumping up against cost. Engineers argued that each side of the Taurus body—from taillight to windshield pillar—should be fashioned from a single piece of steel rather than welding two body panels together. That would eliminate ugly welds, create a more rigid body structure, and result in better-fitting doors and less wind noise.

But the high costs involved nearly killed the change, which required buying a new $90 million stamping machine. Ford's manufacturing engineers also resisted, simply because it was different, Landgraff says. As debate wore on, the engineers tried to duck the issue by claiming it was too late to order the mammoth press. "It was bureaucratic drag," Landgraff says.

Months later, Landgraff discovered that it wasn't too late, after all. But they'd have to order the 7,000-ton press immediately. With Ford in the thick of a cost-cutting frenzy brought on by slumping auto sales, no one on the team could authorize such a huge purchase. So Landgraff asked Trotman to Ford's Design Center one evening in spring of 1992.

"TAKE IT FURTHER." When Trotman arrived, Landgraff and Kozak laid out the case: The new press would replace six body presses from the 1950s and result in much higher quality. The enormous expense left Trotman skeptical at first: "I said, 'My God, we don't have $90 million,'" he recalls. But after a tough debate, Trotman surprised everyone by approving the purchase. "The quality argument was so persuasive that we all agreed we had to do it," he says.

Design work began about the time tepid press reviews of the modestly revised 1992 version were coming out. Critics lambasted Ford for spending $800 million on a car that looked virtually identical to the original. It fell to Gaffka, a 35-year-old designer from Ford's European operations, to fashion a knockout car that would appeal to youthful new buyers without alienating current Taurus owners. Early sketches were cautious and boxy, with square headlamps. But Trotma and other top executives urged Gaffka to "take it further." O seeing early sketches, he told Gaffka: "On the wow scale, thi isn't there yet. Give us an absolute grabber."

Gaffka and his team soon found another source of suppor for bold styling: the Ford family members who control th company's board of directors. William Clay Ford Jr., head o the board's influential finance committee, argued that ar other minor facelift was out of the question: "You don't hi home runs that way," he said. And his father, director Willia Clay Ford, a design aficionado, often dropped by the Tauru studio at night to offer encouragement.

Egged on by the support from the big guns, Gaffka's de signs—there were 17 versions in all—took on a softer, mor oval shape. From Thanksgiving, 1991, through the spring, th design team sketched and carved clay like mad, taking onl two holidays off. Toward the end, Gaffka's team dreame up the oval rear window, last seen on a car in the 1940s. F nally, in April, Team Taurus won the go-ahead for its model from senior management.

Soon, interior experts such as Nevenka Schumaker—i charge of the Taurus control panel—went to work. Wit marching orders to make the panel equally distinctive, th Yugoslavian-born designer began looking for ideas outside th auto industry. Haunting garage sales and thrift shops, she co lected boxloads of knobs and dials.

Schumaker had sketched out a futuristic oval pod to replac the traditional rectangular control panel but wasn't happ with how the dials ran straight across its face. The day befor presenting final drawings to senior management, she mad one last try. Her teardrop-shaped display, with big oval but tons curving across a sculptured surface, won hands down.

Meanwhile, Ford execs were still engaged in "a majo struggle" over how much to jazz up Taurus. In late 199 Team Taurus got help from an unexpected source: Toyota. A ter the Japanese carmaker's redesigned Camry made a bi splash in the U.S., Landgraff's crew tore one apart. Their co clusion: Toyota was putting more, not less, into its cars. Th sedan boasted a silky-shifting transmission, a premium, mult valve engine, and a floor pan made of the same vibratio damping steel-asphalt sandwich found in the Lexus. "Toyot had the craftsmanship," says George C. Bell, the Taurus chi engineer. "It was the car to beat." The disemboweled Camr became Landgraff's most powerful argument for more re finements. New signs went up at headquarters: Beat Camr

HOW TAURUS STACKS UP AGAINST RIVALS

Ford is hiking the Taurus' base model price by 5.6% and its top-of-the-line price by 3.8%—but that still beats fully equipped Japanese competitors

TAURUS

	1995	1996
BASE PRICE	$18,135	$19,150
FULLY LOADED PRICE	$23,945	$24,850*

3.0-liter, V-6 base engine, 101.5-cubic-foot interior

*Estimates

DATA: COMPANY REPORTS

CHEVROLET LUMINA

	1995	1996
BASE PRICE	$16,295	$16,8
FULLY LOADED PRICE	$20,797	$21,5

3.1-liter, V-6 base engine, 100.4-cubic-foot interi

dgraff invited Ford's top brass e over the Camry results in 992. He brought along his own level engineers, plus mock-ups zzy new parts they had de- for the new Taurus. "It was a shed," Landgraff says. The stration made believers out of an and the other top execu- and they agreed to spend what eeded for the improvements.

T PLANS. Other changes were in anticipation of shipping the 'aurus to Latin America, the East, Russia, Japan, China, sewhere. While just 15,000 cur- 'auruses are sold abroad each 'ord is aiming for foreign sales 00 for the revised model. Rath- n doing expensive retrofitting of d cars for export, however, the planned to meet overseas regu- from the start. In addition to g right-hand-drive versions for the new design includes hun- of minor variations to meet lo- egulations—everything from ons standards to safety rules. the design phase neared the team of 120 factory workers Atlanta and Chicago began ar-

BRAINSTORM: *Schumaker haunted garage sales to get ideas for the control panel*

They built more than 200 prototypes to test Taurus' f manufacturing. After Paul Harris, a veteran of At- chassis operation, noticed that he would need three nes to tighten different fasteners on a carbon canister, ers made all three bolts the same. Howard Johnson, an- Atlanta worker, said the air-bag cover had to be pound- with a hammer. But he and other team members altered ver so it could be pushed on by hand, saving time. Alto- , the workers came up with nearly 700 improvements. nwhile, back at the factories, other changes were under 'o avoid losing $250 million in sales during the three- changeover originally planned, Ford began moving quipment into the body shops three years before launch. by little, they removed the old Taurus line and installed w equipment, slowly working out the inevitable kinks. ally, the workers who had gone to Detroit to build ypes returned home in early 1995 and began training . By May, the first test Tauruses rolled off the line, in with the old. The final model 1995s were built on , June 16. Over the weekend, engineers put the last of the new equipment into place and starting Monday, workers assembled the first 1996 cars destined for the market.

Now, with stiffer competition on the way, the real battle will begin in the showrooms. General Motors Corp. will launch a flood of new midsize sedans for the 1997 and 1998 model years, and Honda will introduce a new Accord for 1998. But the toughest rival will likely be the new 1997 Camry, set to hit showrooms in little more than a year. Toshiaki Taguchi, director at Toyota in Japan, says Camry is one of the models his company is revamping "with cost very much in mind." Toyota is cutting parts in the new Camry by 30% and eliminating unnecessary steps such as painting the struts under the car. Analysts say the moves could slash the new Camry's price by up to $1,000, eliminating Ford's current price advantage.

Meanwhile, with its hefty development costs and added features, the new Taurus will cost Ford $750 more per car to build than the old, one analyst figures. And building one takes at least 12 hours, one more than its predecessor, adding about $45 per car in labor costs alone. Still, analyst Christopher W. Cedergren of AutoPacific Group Inc. in Santa Ana, Calif., expects the

DGE INTREPID

	1995
CE	$18,509
ADED PRICE	$20,641

6 base engine, 104.5-cubic-foot

TOYOTA CAMRY

	1995
BASE PRICE	$16,815
FULLY LOADED PRICE	$25,630

2.2-liter, 4-cylinder base engine, 97.2-cubic-foot interior

HONDA ACCORD

	1995
BASE PRICE	$15,335
FULLY LOADED PRICE	$25,345

2.2-liter, 4-cylinder base engine, 94.7-cubic-foot interior

heavy expenditures to pay big dividends eventually: Five more vehicle lines will be based on the Taurus chassis and suspension.

Ultimately, Ford must learn to build better cars for less. Although Ford is expected to slash $1,800 in costs from each Taurus by 2000, that has hardly calmed fears that it is pricing its cars out of reach for many middle-class buyers. Ford executives give affordability concerns short shrift. Landgraff says Taurus prices were set to keep annual sales at 400,000. Beyond that, "If Joe Blow can't afford to buy a new car, I don't give a damn," he says. "Let him buy a used car."

Still, Ford's dealers have already forced the carmaker to give consumers a break at the expense of its margins. If Ford can succeed in replacing the low-margin fleet sales with full-price retail customers—and in getting more buyers to spring for the upscale LX—Cedergren estimates it will earn abo $2,000 per car on the new Taurus, excluding rebates, co pared with roughly $1,500 on the old. But if it fails to cut dependence on fleets, Ford's price increases will do lit more than cover the increased costs of producing the ne Taurus. And even that depends on whether Taurus prici holds—or whether as the market slows and rivals bring c improved models, Ford will have to pump up incentives.

The next two years are critical. If Taurus proves too pric for cost-conscious families, Ford may be forced into expensi rebates that will cut into profits. On the other hand, if buye take to the vastly improved Taurus as they have to Japane rivals, a few years from now Toyota executives could squirming in their chairs as they hear Americans extollir their new Tauruses.

By Kathleen Kerwin in Dearborn, Mich., with Edith H Updike in Tokyo and Keith Naughton in Detroit

WILL LESS BE MORE FOR TOYOTA'S CAMRY?

When Toyota Motor Corp. unveils its restyled 1997 Camry, a tiny button will be missing from the dashboard. The button automatically resets the Camry's digital clock to the top of the hour so drivers can instantly synchronize their clocks to radio time-checks. It's a big hit in gadget-loving Japan, but Americans don't know what it is.

The clock button won't be the only thing gone when the new model is unveiled a little over a year from now. With the yen soaring, Toyota is racing to cut out nearly one-third of the Camry's parts. "Affordability is the No. 1 priority," says Camry chief engineer Kosaku Yamada. "The Camry is not a luxury car."

Toyota's "decontenting" of the 1997 Camry represents a startling U-turn. Japan's biggest auto maker spent the past decade loading cars with an array of snazzy features. But when the yen's rise pushed the Camry's average selling price above $20,000, alarms went off. "We had adopted a Lexus mentality throughout the company, where even the ashtray on the Tercel had to be the best in the world," recalls John Shook, a former Toyota executive who now teaches Japanese management at the University of Michigan.

"NOT A LUXURY CAR": *Engineer Yamada*

EASIER TO ASSEMBLE. Now, Camry engineers are scrutinizing every nut and bolt. Their goal: to trim the cost of developing and building the Camry by up to 20%, to an estimated $500 million. That should enable Toyota to cut $1,000 off the sticker price, while earning 5% gross margins. Today, Toyota barely breaks even on U. S. Camry sales.

Some insiders fear Toyota will go too far, however. "They went overboard one way, now they could go overboard the other," frets one Toyota veteran. But Yamada promises the changes will be invisible to U. S. customers, who account for two-thirds of Camry sales worldwide. To doubters, he points to the revised Japanese Camry, which was introduced a year ago with 41% fewer parts and 176 fewer pounds than the original. Most of the content Toyota is taking out of the American Camry will come from melding mundane little parts—in the seating unit or the dashboard, for example—into easy-to-assemble larger components that eliminate the need for excessive nuts and screws. "Our engineers try to find ways to make each component's cost a little bit lower by changing materials or thickness of the metal," says Toshiaki Taguchi, a Toyota managing director.

LESS IS MORE. The need to eliminate excess content became painfully clear after Toyota engineers tore apart the redesigned 1992 Ford Taurus. They made an embarrassing discovery: The Taurus front bumper had far fewer parts than the Camry's. So engineers set about simplifying the Camry's bumper, with its dizzying array of 24 parts and 53 fasteners. Today, Yamada flourishes a secret engineering drawing of the 1997 Camry front bumper, which boasts just four pieces and 15 fasteners.

Ironically, Ford Motor Co. also tore apart and compared the 1992 models of Taurus and Camry. It drew the opposite conclusion—and built more into its car. Ford even made power windows standard on the new Taurus. Not so on the 1997 Camry, where hand-operated windows will still be offered.

In its new less-is-more mode, Toyota wants to ensure it doesn't lose buyers who are willing to crank their own windows in exchange for a lower sticker price. As the Taurus goes upscale, such populist pricing could be a big weapon in the fight to be America's favorite car.

By Keith Naughton in Ann Arbor, Mich., with Edith Hill Updike in Tokyo

Decision

"Our research is designed to improve the chances of clients who leave little to chance."

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COMPUTERS

THE MAN WHO'S REBOOTING IBM'S PC BUSINESS

How Gerstner lieutenant Rick Thoman is bringing the troubled division back up

It's 8:30 Saturday morning, and G. Richard Thoman, head of IBM's struggling personal-computer business, is home conducting his weekly conference call. On the line are nearly a dozen top managers worldwide—from Raleigh, N.C., to Paris, where it is almost dinnertime. He goes over the daily production and sales statistics—44 pages' worth—in excruciating detail, quizzing each manager in turn. How many computers were built? By product line? By factory? How many were shipped? What's in finished-goods inventory? Did we meet development and manufacturing deadlines?

This weekly ritual—it usually runs until 11 a.m., East Coast time—is just part of Professor Thoman's course in Management 101 for executives in the IBM Personal Computer Co. Thoman, along with Chief Financial Officer Jerome B. York, is carrying out one of the most critical missions in Chairman Louis V. Gerstner Jr.'s turnaround of IBM: revamping the seriously messed-up PC division. It has been losing market share for years. And last year, its perennially anemic profits suddenly turned into an estimated $1 billion operating loss.

GEARING UP FOR FALL. Gerstner knows that until he can fix that, the future of the entire enterprise will be in question. To begin with, the $9.5 billion-a-year PC operation is IBM's biggest hardware unit, accounting for nearly one-sixth of corporate revenues. More important, PCs are the dominant form of computer hardware. Already, 60¢ of every hardware dollar goes to PCs, and that figure will only grow, because PC technology is the building block for a wide array of products—from network servers that whisk data onto the Information Superhighway to massively parallel machines composed of hundreds of microprocessors that "mine" corporate data in a flash. PCs and related software "are very important to our future success," says Gerstner.

Gerstner may have already assured IBM's future in PC software with his $3.5 billion buy of Lotus Development Corp.

THOMAN: *"If I can't turn this business around, then I shouldn't be here"*

old takeover, which was concluded ly 5, gives IBM the top products in onic mail and groupware that IBM's programmers couldn't produce. ner figures that as the computer ry shifts from desktop PCs to net-s, his new packages—more than ting systems such as Microsoft's ows or IBM's own OS/2—may be ey strategic technology.

anwhile, Thoman is working over-on a PC turnaround. Now, the first of success—some head-turning new cts and an uptick in sales—are ap-t. In the first quarter, IBM cranked record 1.1 million machines. Ship-rose 22% worldwide and jumped 37% in the U.S., according to market researcher International Data Corp.

Analysts expect the second quarter to be more of a mixed bag: Sales in Asia were strong, and Europe has been rebounding after a pitiful first quarter, thanks to improving corporate sales. But in the U.S., sales were flat with last year's second quarter because of soft home-PC sales. In all, analysts expect IBM's second-quarter PC revenue to rise 15%, still trailing an industry that's racing ahead 20% a year. Overall, though, Wall Street is encouraged. On July 7, IBM's stock hit $100 a share—the first time in three years. And on July 18, analysts expect the company to report earnings of $1.3 billion on a 15% revenue gain to $17.5 billion.

The test of the PC company's comeback will come in the crucial fall selling season, when 40% of all PCs are sold. Gerstner has just given the go-ahead for the creation of a new consumer division aimed at giving IBM a sharp focus on the home-PC business. The division's first job will be to launch a new Aptiva home-computer line. Fall is also a big season for corporate buyers, and IBM has goodies for them, too. The ThinkPad portable line will be totally revamped and will share the innovative keyboard of the highly regarded "Butterfly" PC (page 72). New, lower-priced machines will be aimed at boosting IBM's 9% share of the portable business.

If these products click, IBM will be in a position not only to retake lost market share but also to start generating profits, which Thoman says is now the higher priority. Merrill Lynch & Co. analyst Daniel Mandresh figures the PC operation is now in the black. He estimates that sales for the year will jump 15%, to $10.7 billion, and PC profits could add as much as $500 million to IBM's $5.9 billion bottom line in 1995.

That's because—under a crash program launched last winter by Thoman and York—the division has tightened up its internal operations: Finished-goods inventory dropped 65%, procurement and distribution costs have come down 50%, and the unit was able to shut 13 warehouses in Europe because it is managing supplies better. Analysts figure the division's gross margin is back to around 19%, from a money-losing 13% a year ago. And now IBM management vows to match Compaq Computer Corp.'s 25% gross margins. "I think we've made enough progress to start to feel good that we're going to fix this," Gerstner says.

After 23 years of working with Gerstner, Thoman knows better than to set expectations too high. His assessment: The job isn't nearly done. Overall, he rates the current performance of IBM PC Co. a C+. Still, that's up from the F he gave it last spring—when the PC operation seemed to be in free fall. Once the overwhelming revenue leader in the market, IBM PC Co. was skidding toward No. 4 in the U.S. and No. 2, behind Compaq, around the world. Products trickled out of development, and forecasting was inept. Big Blue had an oversupply of outdated dogs and a shortage of potentially hot-selling new models. Bottom line: While the industry was racking up double-digit revenue growth last year, IBM PC was writing off $700 million in obsolete inventory, watching sales shrink 6%, and sticking Armonk with a $1 billion loss.

A MARKET FORCE, AGAIN. Thoman is determined never to repeat that sorry performance. The 51-year-old executive, who planned on a career in diplomacy and earned a doctorate in economics before joining Gerstner at McKinsey & Co., has helped his boss hawk credit cards at American Express Co. and cookies at RJR Nabisco Inc. Since Gerstner brought him to IBM, he has been studying techniques that rivals such as Compaq and Dell Computer Corp. long ago mastered: How to bring products to market quickly, build them in sufficient volumes, cut their prices at the optimum moment, and replace them before they're unsalable. Says Thoman: "We had a business which had never functioned correctly."

Now, new products are created by teams from research, design, procurement, logistics, and manufacturing—all working side by side in Raleigh instead of sprinkled across the country in nine different locations. The most promising outcome from that process so far: the Butterfly subnotebook. It moved from a lab project to a finished product in 18 months—a record for IBM. In an industry with nine-month product cycles, that's not overly impressive, but it was a big step forward.

IBM is once again a force to be reckoned with in the market, too. Discount broker Charles Schwab & Co. picked IBM to supply 6,000 PCs after considering other PC makers. "We did not pay any premium to go with IBM, trust me," says Dawn Lapore, Schwab's chief information officer. "That's a new IBM, as far as I'm concerned."

If people are skeptical of an IBM PC turnaround, they have good reason. Almost since its inception in 1980, the IBM PC business has been on a roller coaster—reversing periodic slides and winning back market share

e Turnaround: Status Report

PC CO. HAS DONE A LOT...

- shed workforce 20% and costs by million
- w computer systems pump out status reports
- pments up 22% worldwide in the quarter; U.S. market share sky-ted 37%
- entory turns over every 60 days, om every 80 days last year
- manufacturing deadlines met—time in over a year
- e number of different components in PCs cut by an average of 50%

UT THERE'S STILL MORE TO DO

- rease gross profit margins—'s 19% trails that of Compaq, and Apple
- hten system to ship products n days, not weeks, of order
- eamline development to get new ls into high-volume manufactur-ster
- pand successful portable PC line lower-priced models
- ld more consumer PCs in the 0-to-$2,000 "sweet spot" to ase share in this key growth
- number of retail outlets to work closely with fewer stores

DATA: IBM, INDUSTRY ESTIMATES

REJIGGERING IN RALEIGH: *IBM is making only PCs it has orders for*

only to suffer even steeper drops.

Thoman came in on an uptick in January, 1994. Then, PC Co. was pursuing the type of multibrand marketing strategy long used by consumer-goods companies and then being adopted by such rivals as Compaq. With new lines such as the ValuePoint, IBM quickly became far more competitive on price and features. But signs of the next downturn were already showing: Too many nameplates were confusing to customers, and each brand behaved like an independent company, sending costs skyrocketing.

MOST VISIBLE FLUB. By then, the system—such as it was—was about to grind to a halt. The PC Co. simply could not get new products out the door. It missed every internal deadline, then missed revised schedules 41% of the time. New products lagged behind competitors' by an average of three months. And in the fast-moving PC market, that was fatal. Analysts figure that 50% of the profits for any new model is generated in the first three months, when prices are highest. After that, it's a game of diminishing returns.

Thoman quickly determined that an overhaul was needed—from the ground up. He says he was shocked to find a high-tech company that had absolutely no timely data on its operations. Here was a nearly $10 billion operation in a rapidly changing business, and it could gather results only on a monthly basis at best. Even then, the information was incomplete. "At first, I don't think I understood how severe our wrongs were," Thoman says. "It took me really into the fall to understand them."

That winter, Thoman called in York, a former Chrysler Corp. executive, to teach the PC crowd Manufacturing 101. York says planning and manufacturing systems were alarmingly inadequate. That was headache enough. But IBM engineers—who got bonuses for favorable reviews in technical magazines—also were adding last-minute bells and whistles that drove costs through the roof and made deadlines impossible to meet. That's one reason the PC 700 desktop line, announced last October, wasn't built in volume until the first quarter.

IBM's most visible flub was the Aptiva home PC. Although technically solid, the Aptiva hit the stores absurdly late—10 days before Christmas. Even then, dealers couldn't get enough. Thoman admits now that the shortage was intentional. The Aptiva, it turned out, could not be built profitably. So he cut production. "If you're losing money, volume is not the solution, in my experience," he says drily. The new fall lineup, Thoman says, will be plentiful and profitable.

Around IBM PC Co. headquarters in Somers, N.Y., Thoman is known for his mild-mannered ways. The son of a college professor, he dres es more like an academic than a hig powered executive. But don't stand the way of his turnaround. Thoman h fired one product manager, and of 2 senior managers in place when he cam only 9 remain. "We have clear accoun ability," he says. His job, too, is on th line. Thoman points out: "If I can't tu this business around, then Lou shou move on me, and I shouldn't be here."

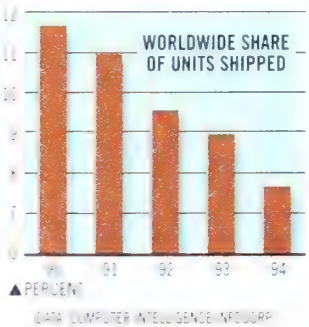
While Thoman's job is in no immedia danger, he's leaving nothing to chanc That explains all those meetings, th checking and double-checking. Says Yor "We're micromanaging this business rig now." But that's precisely how the co petition beat IBM in the first place—b concentrating on the nightmarish logisti of building millions of PCs a year, ea containing thousands of components fro hundreds of suppliers. "If a company c master all the logistics and supply-cha efforts, it is a key competitive adva tage," says Richard E. Belluzzo, seni vice-president of Hewlett-Packard Co. computer-products organization. Ad IBM PC development chief Bruce L. Cla lin: "This business is just attention to billion details."

"McDONALD'S NUMBER." Getting a hand on those details has not been easy. Ha to believe, but IBM—which does a bi business telling its customers how to ru manufacturing operations—didn't have coordinated information system for i PC Co. In Raleigh alone, there were 22 incompatible computer systems. So i October, Thoman hired a chief inform tion officer to put "headlights" on th business. He was fed up, he says, wit trying to run things with "taillights"- using outdated information.

Now, data is collected from all th systems so IBM PC managers get a sing report of what was made the day b fore in each plant—by product line. production numbers drop from the prev ous day, the plant manager can expect call from Thoman. Every day, manage see a fresh "McDonald's num ber" on their screens, tellin them how many PCs have bee shipped so far this year. A yea ago, Thoman couldn't even te whether he had laptops desktops tied up in inventor Today, every model is broke out so managers can see what moving and what's not.

The most important part IBM's battle to regain marke share is taking place on th plant floor. Thoman carrie around a list of six impera tives for the PC compan

BUTTERFLY: WILL NEW PRODUCTS SLOW THE MARKET-SHARE SLIDE?



.1 NUCLEAR POWER PLANT VENDOR IN THE WORLD

N°.2 NUCLEAR FUEL ASSEMBLY MANUFACTURER IN THE WORLD

.1 IN EUROPE AND N°.3 WORLDWIDE IN CONNECTOR MANUFACTURING

A KEY PLAYER IN HIGH-TECH MECHANICAL ENGINEERING

FRAMATOME

ONSOLIDATED FINANCIAL HIGHLIGHTS

REVENUE

	1994	1993
Consolidated revenue, et of tax FRF millions)	19,955	17,011
which nuclear wer related	14,352	10,358
	71.9 %	60.9 %

EARNINGS AND DIVIDENDS

	1994	1993
let income after inority interests FRF millions)	846	863
let margin	4.2 %	5.1 %
hares utstanding	10,200,000	10,200,000
arnings er share (FRF)	83.0	84.6
ividend per share efore tax credit (FRF)	38.00	39.00

Framatome shareholders held their Annual Meeting on June 14 and approved the financial statements for the year ended December 31, 1994.

Consolidated revenue amounted to FRF 20 billion for the year, compared with FRF 17 billion in 1993. The increase resulted from several factors. First, the two units of the Daya Bay, China nuclear power plant were invoiced during the first half, whereas only the second unit of the Golfech, France nuclear plant was billed in 1993. Second, a larger number of replacement nuclear components were sold in 1994. And third, Burndy Japan, acquired in late 1993, was fully consolidated over the entire year in 1994.

On the other hand, 1993 revenue had benefited from the invoicing of two major non-recurring long-term contracts. The Framatome parent company completed the fuel transfer station and related systems for the Superphenix fast breeder reactor in France, while NFM billed the central test section of the European Transonic Windtunnel.

In addition to Burndy Japan, the 1994 scope of consolidation includes the 20% interest purchased in Société des Techniques en Milieu Ionisant (STMI), as well as two recently acquired companies specialized in non-destructive testing, Contrôles Tests Expertises (CTE) and Nordtest.

Net income after minority interests amounted to FRF 846 million, compared with FRF 863 million in 1993. Net margin was 4.2% of revenue, versus 5.1% the year before. With the invoicing of the two Daya Bay units and the consolidation of Burndy Japan, the order book amounted to FRF 28.8 billion at December 31, 1994, compared with FRF 37.5 billion a year earlier. In particular, the 1994 order book included the four nuclear power units (Chooz 1 and 2, and Civaux 1 and 2) being built in France.

During the year, stepped-up efforts were made in the nuclear power sector in Asian markets, whose rate of economic growth is creating vast needs for electric power. These needs are especially felt in the People's Republic of China, where in December 1994 Framatome submitted a bid to supply two 985-megawatt nuclear islands identical to the ones that came on stream at the Daya Bay plant in February and May. An awarding letter selecting Framatome to supply the two nuclear islands and their fuel was signed by the Chinese customer, the China Guangdong Nuclear Power Holding Corp., on January 13, 1995. The final contract is scheduled to be signed by July 15 of this year.

Framatome Mechanical Engineering had a satisfactory year in 1994. Results were especially good at Framatome's Chalon/Saint Marcel heavy nuclear components plant, at Clextral, whose earnings recovery continued apace, and at Packinox, whose order bookings doubled during the year.

In the connector business, Framatome Connectors International (FCI) enjoyed a very strong recovery, with sales rising by around 17% to FRF 4.2 billion from FRF 3.6 billion in 1993. The 1994 figure includes full-year sales by Burndy Japan; on the basis of a constant structure, sales were up 9%. FCI's operating income tripled during the year, while income before taxes and the amortization of goodwill and brand assets was close to breakeven.

Shareholders approved the payment of a dividend of FRF 38.00 per share, with an associated tax credit of FRF 19.00. They also decided to increase the company's issued capital to FRF 2,040,000,000 from FRF 1,020,000,000 by capitalizing reserves and issuing bonus shares.

FRAMATOME

which he hands out wherever he goes. Top of the list: Become a reliable supplier—get the products out of the factory and to the dealers and customers when they want them. He says IBM has helped Compaq, HP, and others gain market share "by just not being reliable enough." That's why Thoman just hired David S. Hoyte—a former Frigidaire Co. exec with a lot of experience making high-volume consumer appliances—to run manufacturing.

Thoman and York now have the factories meeting delivery promises 80% of the time, up from a dismal 45% last year. But they want to start building more PC models to order. Under that system, instead of piling up inventories of what the company expects—or hopes—to sell, it will manufacture only what it has orders for. That's how mail-order giant Dell does it—and turns a healthy 8% aftertax profit on 21% gross margins.

POSITIVE PREVIEWS. York also helped Thoman zero in on the product-development group, which was screwing up deadlines and sending costs sky-high. Even when designs did make it to manufacturing, they usually arrived only two-thirds complete—requiring costly engineering changes and cutting time for testing. Now, procurement, logistics, and manufacturing people work together on new product designs. That way, when an engineer selects a part, there's someone in the room who knows how much the part will cost, how long it will take to get that part to a plant, and whether using that component may make it too difficult to build the machine.

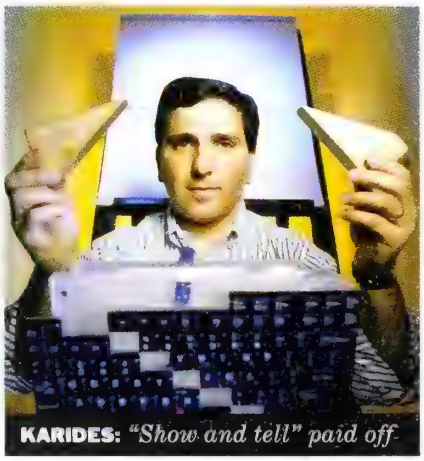
The next six months will be critical. If IBM can't convince retailers that it's serious this time, it could have trouble getting them to stock its wares. "At a certain point in time, if they don't start figuring it out, people are going to give the floor space to somebody else," says Debbie Meagher, vice-president at Best Buys, a 210-store chain.

Thoman is focused intently on a smooth launch of his fall lineup. He has already previewed some models for retailers, and the early reaction has been positive. What's more, Thoman says, the redesigned Aptivas can be priced aggressively and still turn a profit. The acid test will be building enough of them. "Availability is the single biggest driver of market share," says Edward R. Anderson, president of Dallas-based CompuCom Systems Inc., a PC distributor. That's why executives of IBM PC Co. are still spending their Saturday mornings in Professor Thoman's class.

By Ira Sager in Somers, N. Y., with bureau reports

THE BUTTERFLY: FROM A LITTLE GIRL'S BUILDING BLOCKS

In the old days, the Butterfly might never have flown. But the ThinkPad 701C laptop PC, code-named Butterfly, became the first on-time product from the IBM PC Co. in years—and a badly needed smash hit. The breakthrough that inspired its name: a full-size keyboard that neatly tucks inside the compact, 4½-pound unit. Says Edward R. Anderson, chief executive officer of CompuCom Systems Inc., which runs a chain of PC stores: "It's the most exciting thing I've seen since the Mac." And the fact that it metamorphosed so smoothly from engineering sketch to finished product is the surest sign yet that IBM can indeed fix its personal-computer problems.



KARIDES: *"Show and tell" paid off*

Two winters ago, IBM's PC development chief, Bruce L. Claflin, came across the unique keyboard design during a "show-and-tell" session with researchers at IBM's Thomas J. Watson Research Center in Yorktown Heights, N. Y. One researcher, John P. Karides, had been intrigued by the challenge of shrinking a portable computer—while keeping a full-size keyboard and screen. After deciding the screen couldn't be smaller, the 36-year-old mechanical engineer focused instead on the keyboard. He fiddled with some origami designs, but they just made the machine thicker. "I realized the problem was one of shape, not size," he says. Karides then envisioned two triangles that make up a rectangle, and when he saw his 4-year-old daughter playing with a set of blocks, it all clicked.

Back at work, he grabbed a ThinkPad, ran to a copier, and flipped it over. Soon, he had cut the keyboard image in a way that became the Butterfly. Then he built a prototype—basically, a rectangular plate with two keyboard halves in it. Slide a lever, and two overlapping pieces come together on a single plane. When Claflin saw it, he was floored. Often, he says, the lab folks show off-the-wall technology. "We saw this one, and it was electric," he recalls. "You just knew."

This is where the project might have foundered in the old system. Karides would have handed it off to product developers—miles away—who might take years just to build a prototype. That's why it took six years for an earlier IBM innovation—an eraser-like pointing device for portables—to hit the market.

Not this time. Karides and two colleagues joined a product-design team and spent the next year commuting to Raleigh, N. C. "It doesn't matter all that much if you have some great idea and it just sits on the shelf," says Karides. "The best thing you can do for the company is go help it become a product."

TYING TOSHIBA. Butterfly isn't just a product—it's a hit. Computer Intelligence InfoCorp figures that the Butterfly, which debuted on Mar. 7, already accounts for 8% of IBM notebook PC sales. And Audits & Surveys Worldwide Inc. says that in May, the new model helped IBM for the first time tie Toshiba Corp. as the top seller of portables through PC dealers. IBM recently cut the price of the entry-level model 17%, to $2,900, and has geared up a plant in Mexico to meet demand.

What's Karides' next project? He's not saying. But Karides does say that his personal goal is to fit a 10-inch display into a handheld computer. That, he admits, is going to take a while. In the meantime, he's playing with origami again.

By Ira Sager in Somers, N. Y.

CABLE TELEVISION

PRIME TIME FOR CABLE

More customers, cash—and deregulation may be coming

Federal rate regulation and the threat of competition from telephone companies may have soured the stock market on cable TV until recently. But even in the dark days, all Jerry Kent and his two partners at St. Louis-based Charter Communications Inc. saw was opportunity.

Armed with $300 million in equity capital from New York merchant banks Kelso & Co. and Charterhouse Group International, Kent began buying depressed cable assets in 1993, concentrating on St. Louis, Los Angeles, Connecticut, and the Southeast. In the process, he has built a healthy midsize cable company with more than 900,000 subscribers. Kent is so bullish on cable, in fact, that Charter is currently teamed with Kelso and Ellis Communications Inc. to bid against the likes of Tele-Communications Inc. (TCI) and NBC in the $2 billion auction for Multimedia Inc. "We didn't buy into the conventional wisdom" that cable had become something to run from, says Kent. His eye is trained on Multimedia's 450,000 cable customers.

SATELLITE SLOWDOWN. Now, Wall Street has come around to Kent's way of thinking. After stewing about the cable industry ever since the collapse of the TCI-Bell Atlantic Corp. deal, investors have bid up cable stocks 24% since April, outpacing the Standard & Poor's 500-stock index (chart). The market is following savvy private investors, including Kelso, Hicks Muse, and Goldman Sachs, who have pumped more than $1 billion into the industry since last year. Says investment banker John Waller, head of New York's Waller Capital Corp.: "There's more outside capital coming in than there has been in years."

The new optimism is creating opportunity for everyone. Viacom Inc. last year saw the $2.3 billion sale of its cable systems to a group including TCI fall apart because Republicans killed a minority tax break crucial to the deal. A new transaction, without the tax break, will likely close soon at only about $2 billion. But that's more than Viacom would have gotten before the surge in cable values.

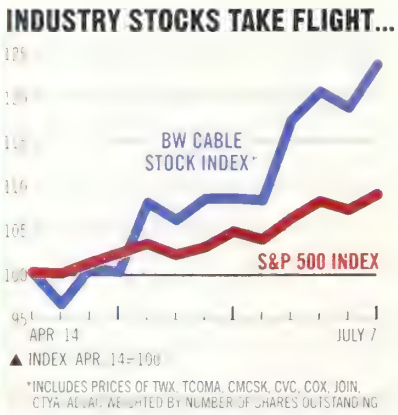
Meantime, Continental Cablevision Inc., the nation's fourth-largest cable operator, may soon make its first public offering, says President William T. Schleyer. Jones Intercable Inc. also plans a big offering, this one to fund acquisitions, says Chairman Glen Jones. Falcon Cable Systems Co. in Los Angeles says it is raising private money for expansion. And J.P. Morgan & Co.—one of several merchant banks scouting out small acquisitions—is hoping to finish raising $125 million by August.

What's driving the upsurge in prices is both the promise of cable deregulation and the realization that re-regulation hasn't been as dark a nightmare as was first perceived. Moreover, hot satellite competitor DirecTV has slowed its pace lately, and the telephone companies have acknowledged in various ways that their move into television will take longer than they had hoped. Cable companies will face competition someday, and they still need many billions in capital to upgrade their sprawling systems with broadband fiber-optic technology. But the job looks increasingly manageable.

"I think we've really worked throu a lot of the clouds," says Merrill Lyn & Co. analyst Jessica Reif.

Regulation, which forced cable sy tems to roll back rates by 17% ov two years, has been the biggest bug boo. By the second round of rate cuts instituted a year ago—systems th once had the steady cash-flow charact istics of a utility were tagged risky a unpredictable. How would they ev pay down their heavy debt, let alo finance the upgrades needed to a competitive offerings such telephone service and vide on-demand? As capital dri up, investor worry threaten to become a self-fulfilli prophesy.

SENATE VICTORY. Many in t private markets saw this an overreaction and believ that last November's Repub can victory in Congress wou eventually counter the regu tory zeal led by Vice-Pre dent Al Gore and Feder Communications Commissi Chairman Reed E. Hund Most investors, howev



BULLISH IN ST. LOUIS: *Jerry Kent's Charter wants a piece of Multimedia*

d evidence that the vast deregula- elecommunications bill wending y through the House and the Sen- d legs. June's decisive victory in enate gave proof the Republicans serious. Many Washington experts e a cable-friendly bill is likely to his fall.

en without congressional action, er, the future looks brighter than for some time. Having absorbed te reductions, industry revenue picking up steam. According to ational Cable Television annual subscriber h through this past May nning at about 4%, vs. he year before. Several nies, including Time er, Continental Cable- , and Comcast, report h rates faster than the association's numbers. ative packaging of pay els has increased sub- r buy rates. And adver- sales—although less % of most systems' rev- —have been growing in uble-digit range.

At the same time, despite the fact the FCC has received 15,000 rate complaints and has forced companies to repay $28 million in overcharges since 1993, it has gotten more lenient about allowing cable systems to pass along upgrade costs. Rules expected to be decided on in a July 28 vote would facilitate such pass-throughs, as long as a company can make the case that its upgrades benefit subscribers.

All told, most analysts are predicting increases in cash flow for 1995 topping 10%. "Cash flow is up, cable subs are up, the industry is getting itself in shape for real growth," says investment banker Brian Deevy, president of Denver's Daniels Associates.

With such good news in hand, cable executives feel less need to crow these days about the unlimited potential of the ephemeral Information Superhighway. Ironically, some of those services suddenly appear very much within reach. Digital set-top boxes that will allow for hundreds more channels should be affordable by early next year, analysts say. Ditto for "cable modems" that will allow customers to hook their PCs to the Internet via broadband cable. More channels will mean more opportunities to raise revenue from the same customers, be it from home shopping or a more competitive menu of movies. And cable modems—if they can be made affordable, say $200 to $300—will allow lightning-quick access to the World Wide Web. As anyone who has tried it can attest, current Web access over telephone lines is akin to sipping molasses through a straw.

TIME TO BUY. Comcast finance chief John R. Alchin is high on the future, but he isn't counting on new services in the short term. "None of our budgets anticipates any new services that depend on delivery of those boxes," he says, ruefully recounting the deadlines the technology has missed already. While Continental's Schleyer is more sanguine about starting to offer more channels, high-speed data services, and even telephone service sometime next year, he insists that his company's capital spending is justified through regular cable cash flow alone.

New services or no, investors are definitely heated up right now. Says Falcon Cable Chairman Marc B. Nathanson, recently returned from seeking capital in New York: "I haven't seen this kind of enthusiasm in 18 months." One executive at a major New York merchant bank is even fearful the moment to buy low may already have passed. "I'm reluctant to say anything positive about the industry," he says, "because we're still buying." For a business with as many bruises as cable, such a sentiment is positive enough.

By Michael Oneal in New York, with Ronald Grover in Los Angeles and Mark Lewyn in Washington

...WHILE PRIVATE CAPITAL FLOWS IN

SOME BIG INVESTORS	CABLE PARTNERS	INVESTMENTS
GOLDMAN SACHS	Marcus Cable	$180 million for Sammons, part of Crown Media, and Star Cablevision
HICKS MUSE	Marcus Cable	$115 million in Sammons deal
KELSO, CHARTER-HOUSE	Charter Comm.	$300 million for Gaylord Broadcasting and the other part of Crown Media
CALPERS	Comcast	$250 for Rogers Communications
J.P. MORGAN	NA	Raising $125 million for deals

DATA WALLER CAPITAL CORP., BUSINESS WEEK

MUTUAL FUNDS

WHAT'S PUMPING UP MUTUAL FUNDS

Billions of 401(k) dollars are pouring in

Dottie Nassaro, a 56-year-old production worker at Coors Brewing Co., is not the sort of customer that mutual funds have historically courted. And Nassaro, a shareholder in the Fidelity Magellan and Asset Manager funds, didn't find these investments by reading personal-finance magazines. Nassaro discovered Fidelity—and Fidelity found her—a few years ago when Coors hired the fund giant to manage money for its 401(k) plan, a tax-deferred retirement program that supplements Coors' regular pension plan.

Through Coors-sponsored seminars and Fidelity worksheets, Nassaro decided that her 401(k) was too conservatively invested. So she upped her contributions, slashed the fixed-income portion in half, and designated 20% to Magellan and 30% to Asset Manager—and until she says otherwise, every dollar that goes into her 401(k) will be invested that way. Nassaro is not alone among her fellow workers: Every month, 23% of Coors' 401(k) money goes straight to Magellan.

CLOCKLIKE. Investors such as Dottie Nassaro are becoming some of the most sought-after customers of the mutual-fund industry. Last year, they pumped about $26 billion into funds, says Avi Nachmany of Strategic Insight Inc., a fund consulting firm. That's about one-third of the funds' net cash flow. This year the inflows could double.

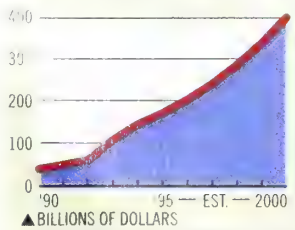
The 401(k) money comes in with clocklike regularity, assuring fund companies a steady source of millions in management fees. Better yet, since these are retirement dollars, they're likely to stay around for years, if not decades. The 401(k) is changing the nature of the fund industry, increasing its ability to absorb market shocks. It's also forcing smaller fund companies to merge to compete for the business.

For millions of workers, the 401(k) is becoming the principal retirement vehicle (BW—July 3). With traditional "defined-benefit" pension plans, companies stop making new investments once the fund has enough to pay benefits. But in "defined-contribution" plans such as the 401(k), the cash keeps rolling in until a participant retires. This money is fueling this year's rally, and it also helped keep stocks from collapsing last year when interest rates soared. Retirement money, says Nachmany, is "increasingly serving as a buffer of stock mark volatility."

The 401(k) money is changing t way funds are run. "I don't get wi swings in cash inflows or redemption says Stephen R. Petersen, portfol manager of the $9 billion Fidelity Eq ty-Income Fund. He estimates that 45 of the assets and 75% of the monthly i flows—which range from $60 million $100 million—come from retireme plans. That means he doesn't need keep much cash, since new money w more than meet redemptions.

Mutual-fund companies are getti an ever increasing share of 401(k) mo ey. In 1990, they had some 18% of wh was then a $300 billion market. At t

MUTUAL FUNDS' 401(k) ASSETS ARE ROCKETING



DATA: ACCESS RESEARCH, INVESTMENT COMPANY INSTITUTE, BUSINESS WEEK ESTIMATES

f 1994, they commanded 28% of 25 billion in 401(k) assets, accord- Access Research Inc., a Windsor .) consulting firm. Employers are g to fund companies for the same ns as individual investors. "They good products, and they do a good eting job," says Bob Wuelfing, ent of Access Research. "For plan ors, it's an easy choice." Wuelfing funds could be managing about ird of the expected $1.2 trillion (k) assets by 2000 (chart).

PLAYERS. It's also a good bet that of that money will be in the hands tively few mutual-fund firms. The y mutual funds have well over $60 in 401(k) assets, representing 5,700 nies and 3.2 million participants. gic Insight's Nachmany estimates st year some 86% of the Magellan s net inflows came from defined- bution plans.

big fund companies dominate the business. Vanguard Group Inc., econd-largest fund company, has $42 billion in 401(k) assets, 28% of al asset base. Other major players e T. Rowe Price, Twentieth Centu- tual Funds, Capital Research, and m Investments. Their growth, in comes from investments made ago in the technology and admin- ve infrastructure. "If you had less 20 billion in total assets today, it be hard to afford to go into this ess," says William N. Shiebler, a managing director at Putnam.

401(k) is leading to consolidation fund industry to increase assets oaden the product line. W. Gordon r, chief marketing executive at ieth Century Mutual Funds, notes his firm, mainly an equity-fund ger, recently merged with Benham , a bond-fund manager, to develop ncome products for 401(k)s.

no coincidence that the fund com- with most of the 401(k) business ose that sell directly to individuals than through sales forces. These have long had to communicate nvestors without the help of an ediary—through 24-hour phone educational materials, and newslet- and that's what's needed to ser- 01(k) participants. "Employees are investors of some sort or another," Mark Casady, director of defined- bution services at Scudder, Ste- & Clark Inc.

eed, Dottie Nassaro, whose 401(k) ments have done well, has started a little money into mutual funds r own. If others like her do the the funds will be getting an extra from the 401(k) business.

Jeffrey M. Laderman in New with Sandra Dallas in Denver

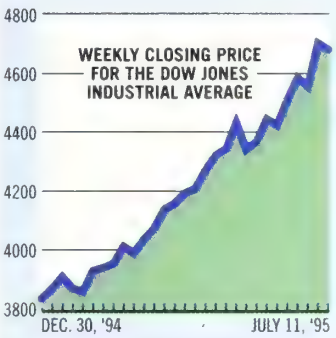
DID SOMEONE SAY 'DOW 7000'?

That's one man's opinion, but 5000 or more is downright likely

Just a few months ago, the prospect of the Dow reaching 5000 seemed about as likely as O.J. Simpson's lawyers working pro bono. Now, with the Dow Jones industrial average close to 4700—up almost 22% year-to-date—Dow 5000 doesn't seem so outrageous. Sure, investors may get spooked by some negative surprises in upcoming second-quarter earnings reports. And some tech stocks may fall to earth this summer. But overall, tech stocks are on a major uptrend and will continue to carry the market higher.

Over the long term, some analysts make a case for the market not only hitting 5000 but going well beyond it. After all, corporate profits are the healthiest they've been in decades, and the price-earnings ratio of the Standard & Poor's 500-stock index is a modest 13.6, according to First Call Corp.'s database of earnings projections for the next 12 months. Also, inflation seems tame, and interest rates are low and could head lower. One analyst goes further than most, saying the Dow could reach 7000 by the end of the decade. Contrarians could read that as a signal that the market is ripe for a short-term correction. And, of course, if the economy slips into a recession, all bets are off. But after the recent reduction in interest rates by the Federal Reserve, recession seems less likely.

READY FOR A BREATHER?



DATA: BLOOMBERG FINANCIAL MARKETS

> Tech companies are riding "an unprecedented wave of demand"

"MUSIC TO OUR EARS." In his recent report to clients, "Dow 7000," Ralph J. Acampora, Prudential Securities Inc.'s director of technical analysis, maintains that the U.S. stock market is in "the first stage of a classic bull market." The market's recent meteoric rise is not unprecedented, he says, but reminds him of the period from 1962 to 1966 when the Dow nearly doubled, rising to 975. Acampora believes that 1994 can be defined as a bear market and that the long-term direction of interest rates is down. He takes negative sentiment among market newsletter writers as a positive: "Their doubts and concerns ... are like music to our ears." Acampora's optimism is also fueled by the U.S. being "the lead player in the high-tech revolution."

Morgan Stanley & Co. strategist Byron R. Wien is also a tech bull. Recently, he advised Morgan's clients in Europe to buy more U.S. tech stocks. "What sets technology off from the rest of the economy is the major secular shift to more information at every level of business and personal life," he argues. Unlike other industries that are closely tied to local and world business activity, tech companies operate on a different plane, he says, riding an "unprecedented wave of demand."

GOOD BUYS. That wave of demand has led to some eye-popping prices. Intel Corp., for one, has more than doubled since the beginning of the year. "Price appreciation looks fantastic," says Bluford H. Putnam, chief strategist for Bankers Trust Global Investment Management. "But so does the profit picture." A number of attractive tech stocks have p-e's in the neighborhood of the S&P 500's current 17. EMC Corp., a computer systems company, sports a p-e ratio of 20. Hewlett-Packard Co. trades at a p-e of 21. Intel Corp. trades higher, at 23 times estimated 1995 earnings. But some tech stocks with sky-high p-e's are well worth it, such as Microsoft (p-e: 41), according to analysts at Morgan Stanley.

The market may hit a bump or two over the next few months, but the long-term picture looks bright. And who knows: Maybe Johnnie Cochran *will* work pro bono.

By Suzanne Woolley in New York

CHART BY ERIC HOFFMANN/BW

HOWARD'S END: *Summerlin stands to benefit from Vegas' real estate boom*

REAL ESTATE

THE LAST BEQUEST OF HOWARD HUGHES

The recluse's heirs want to unload their real estate holdings

Back in the 1950s, when Howard Hughes began buying land in the Las Vegas valley, Sin City was little more than a strip off a two-lane desert highway. Dusted with a smattering of casinos, Vegas land was cheap and plentiful. For close to nothing, Hughes quickly amassed the largest private land position in Nevada before he died in 1976.

Those holdings—some 20,300 partly developed acres in Vegas and two smaller plots in Los Angeles—are all that's left of the recluse's once far-flung empire (table). Thanks to the huge casino expansion, Vegas real estate is booming, and Hughes's heirs, who have so far collected at least $500 million by liquidating his other assets, want to cash in their remaining chips. But getting money out of what is mainly raw land has been very difficult. Still, many of the heirs are well into retirement and tired of waiting.

In late May, the board of directors of privately held Howard Hughes Co. hired Morgan Stanley Inc. to explore ways to satisfy the heirs. Assessments of what the company is worth are hard to come by, but it should fetch hundreds of millions. One option, an initial public offering, was rejected because most of the land doesn't generate steady income, says Hughes CEO John L. Goolsby. More likely options are bringing in outside investors, which would allow some heirs to liquidate their interest, or simply putting the whole company on the block.

QUICK SALES. The Hughes clan can thank William Rice Lummis that they have much of anything left to sell. Lummis is a member of the group of 21 cousins and an aunt (some of whom, including the aunt, have since died) who inherited Hughes's control over the company. They appointed him to head the company just months after Hughes's death. By quickly selling off holdings such as Hughes Helicopter and five casinos on the Las Vegas strip, Lummis was able to pay out not only the $5 million but also $200 million in back ta es. In recent years, the cousins ha distributed interests to some 300 d scendants as well as some lawyers f their work in dealing with a monume tal profusion of claims to Hughes's a sets and challenges to his will. The leg wrangling lasted until 1990, when t cousins finally solidified their ownersh

To deal with the illiquid real esta Lummis that year promoted Goolsby lanky Texan who had been running t Hughes properties for 10 years, to ch executive of the company. Says Goolsb "Lummis recognized that the real e tate holdings were the one area th had not really been developed und Hughes, and that it was not readi transferable into cash."

Goolsby has worked hard to increa the land's cash value by lining up perm and addressing zoning issues, selling parcels along the way. He took the ori inal 25,000 acres that Hughes bought the foot of the Red Rock Mountains west Las Vegas and created a plann community, Summerlin, that combin office space and homes. By building hig way access, golf courses, and schoo and by providing for water rights, t company has increased the value of one-acre parcel from $20,000 to $85,00 according to local developers. And spe ulative mid-city office space that t Hughes money enabled Goolsby to bu in the early 1990s, when many develo ers found financing scarce, now co mands the highest rents in town.

LA. DOGS. Not all of the real estate going gangbusters. Hughes's two L Angeles holdings, a 70-acre site near t airport and an interest in Playa Vista, 1,000-acre parcel overlooking the Paci have been hit hard by the r cession and lost at least h their value in the last five yea "Land in Southern California basically worthless unless y have buildings on it," says Ro ert A. Ortiz, executive vice-pre ident of Los Angeles giant Cus man Realty Corp. "If I we them, I'd wait" to sell.

But many of Hughes's hei now planning their own b quests, feel it's high time bring down the curtain on t last, albeit rather anticlimact act of the great Howard Hug es drama.

By Nanette Byrnes
Las Veg

REMNANTS OF THE HUGHES EMPIRE

SUMMERLIN 19,500 acres of desert at the base of the Red Rock Mountains, featuring a $25 million PGA golf course and luxury homes.

HUGHES CENTER 120 acres in central Las Vegas. Monthly rents in its premier office tower are $2.40 per square foot, the highest in town.

HUGHES AIRPORT CENTER A business and industrial park. Space is leased as fast as it comes up.

HOWARD HUGHES CENTER 70 acres off one of Los Angeles' busiest highways, north of the airport. Hit hard by recession, but more than 90% rented.

PLAYA VISTA The company owns about 60% of this project. After years of environmental battles, development is scheduled for 1997. Hollywood's DreamWorks SKG trio are looking at space.

DATA BUSINESS WEEK

INSURANCE

THESE INSURERS ARE IN IT FOR THE LONG HAUL

Extended-care policies could be a hit with an aging population

For years, financing long-term care has been a worry for elderly Americans. Medicaid and Medicare cover less than 40% of the $90 billion spent annually on nursing and home health care—and even the well-heeled can see their life savings wiped out by a prolonged hospital stay.

While older folks may fret over long-term care, life-insurance companies are coming to see it as a potential gold mine. Private insurance now takes care of only 2% of long-term expenses. Policies typically cover costs of care—including extended stays in hospitals and nursing homes—for people who can no longer manage for themselves. Industry analysts expect the number of policies sold to reach 820,000 this year, up 68% from just two years ago. And the premiums derived from those policies, now about $2 billion, should grow steadily at 20% annually. "It's the greatest unmet health-care need for older Americans," says Richard Garner, vice-president for long-term care at CNA Corp.

BOOMING. Conning & Co. analyst Geoffrey Schuman says well-run companies earn a 15% return on equity in the long-term-care market—well ahead of the 13% average in life insurance. Annual premiums typically run $1,200 to $1,400. It also helps that long-term care is one of the few expanding insurance markets. "In the world of insurance, this is a high-growth product," he says.

This isn't the first time the industry thought it saw gold in long-term care. When Medicare was established back in 1965, some companies began offering insurance that would cover nursing-home costs. The business was steady but not spectacular, since consumers were turned off by the policies' limited benefits and extensive restrictions on coverage.

Now, prospects for long-term-care coverage are booming. The elderly population is growing rapidly. And Congress is targeting Medicare for budget cuts and considering tax deductions for private insurance. Some aggressive new contenders are moving into the market. One example: GE Capital Services Inc. bought long-term-care leader AMEX Life Assurance Co., formerly a division of American Express Co., which had $337 million in annual premiums for long-term care in 1994.

Many insurers are using more imaginative marketing approaches. Take C
It plans to market long-term-ca
coverage through its GNA Corp. subs
iary, which until now has specialized
annuities and mutual funds. Other
surance companies are selling throu
corporations' employee plans in an
tempt to sign up younger custome
Conning says that the average age
employees buying policies through th
companies is 42, well below the avera
of 65 for the individual customers th
long-term-care insurers usually targ
Younger policyholders pay lower pre
ums—but insurers have a lot longer
invest the money.

CONSUMER BEEFS. Travelers Inc. a
other insurers are packaging long-te
care with retirement plans. Long-te
coverage "is marketed as a retireme
account," says Travelers Vice-Pre
dent Joyce Ruddock. The busine
is a small one at Travelers—t
company sold just under 30,0
policies in 1994—but Ruddo
expects that to increase 70
to more than 50,000, in 199
Consumer groups a
critical of some lon
term-care policies, a
such gripes could der
certain marketing pit
es. The American As
ciation of Retired Perso
says a lack of uniformity
long-term-care packages makes it ha
to compare policies. And with half
all elderly couples living on less th
$25,000 a year, the AARP says many
them lack the assets to make a cos
policy worthwhile.

At Consumers Union, Gail Shear
director of health policy analysis, sa
that some policies are being sold to p
ple who cannot afford the $100 a mor
or more in premiums. Moreover, s
says, many policies lack built-in inf
tion protection and the option to reco
some of the premium equity if a custo
er cancels the policy before using all
benefits. "Consumers still need to p
ceed very carefully," she says. "The
are lots of pitfalls."

Insurance executives reply that m
major issuers now offer features such
inflation protection in their policies. A
some 40 states have adopted new re
lations covering sales practices and p
icy terms for long-term-care insuran
But even with the new rules, they'
gunning for new business. With den
graphic forces and the new Congre
on their side, insurers are confident t
targeting long-term care will produ
long-term profits.

By Tim Smart in Hartf

Why Insurers Like Long-Term Care

HEALTH-CARE REFORM proposals have Americans worried about whether government programs will provide adequate long-term care.

THE ELDERLY are increasingly concerned about having their life savings wiped out by long-term illness.

THE VAST MARKET for long-term-care insurance has barely been tapped. Private insurance covers only about 2% of all long-term-care costs.

SLUGGISH DEMAND for other insurance makes long-term-care insurance the best bet for insurers eager to boost profits.

DATA: BUSINESS WEEK

BY GENE G. MARCIAL

BLUE CHIPS ON A BLUE STREAK

If there's an avid Dow watcher, it's William LeFevre, who has been more right than wrong in forecasting where the index is headed. His stock picks scored a heady 43% gain in the first half of 1995, beating the Dow's 20%. His strong showing, he says, was mainly due to bets on three big Dow-average components: Coca-Cola, Gillette, and Philip Morris. But as the Dow tops 4700, is he joining skeptics who see it riding for a fall?

LeFEVRE'S STOCK PICKS

STOCK	52-WEEK HIGH	52-WEEK LOW	JULY 12 PRICE	1995 TARGET PRICE
AT&T	55⅞	47¼	54⅝	60
PHILIP MORRIS	77¼	51¼	77⅛	86
WOOLWORTH	19⅝	13½	14⅝	25

DATA: BLOOMBERG FINANCIAL MARKETS, EHRENKRANTZ KING NUSSBAUM INC

Not a chance, says LeFevre, who writes a weekly letter, *Monday Morning Market Memo*, at Ehrenkrantz King Nussbaum in New York. He thinks the Dow is headed higher, driven by falling interest rates and climbing earnings. "This rise, which has broken many a bear's heart, is starting to confound even the bulls," he says. "Only a week ago, I was forecasting a 4800 Dow before 1996, but now 5000 could be hit before the end of 1995." The Federal Reserve's quarter-point cut in the federal-funds rate, to 5¾%, "gives this bull market a new lease on life."

LeFevre says the stocks to play for the rest of the year are Dow components AT&T (T), Philip Morris (MO), and Woolworth (Z).

Why AT&T? LeFevre points out that AT&T has yet to participate in the Dow's surge. AT&T, now at 54⅝, hasn't budged much from its 52-week low of 47¼. The stock hit 64¾ in July, 1993. He thinks 60 is an easy target. Investor fears over a phone price war has it spooked. But LeFevre thinks investors will see that AT&T will be the hot player in this competitive business. Telecommunications is becoming more complicated and global, and "AT&T is the safest and best bet in it," he says.

Philip Morris' controversial cigarette operations continue to spew out large amounts of cash, which are poured into food and beverage units, notes LeFevre. Given its strong profit growth, the stock remains cheap, trading at a price-earnings ratio of 13, vs. the Dow's p-e of 16. He sees Philip Morris rising to a 15 p-e in 1995, which implies a stock price in the high 80s.

LeFEVRE: *Spotting Dow late bloomers*

Woolworth is another Dow laggard: Now at 14⅝, the shares are not far from their low of 13½. "Talk about bargains—Woolworth is definitely a hell of a buy," says LeFevre. He says the giant retailer "will catch up with the Dow's mighty upward trek mighty soon." The economy can't have its recovery, he says, without consumers participating in it—and without retailers catching the bulk of that move. So LeFevre sees Woolworth rising to the mid-20s.

IS THIS BANK BEING CASED?

There's no denying that banks are where the money is—on takeover bets. The recent merger pact between PNC Bank and Midlantic attests to this trend in banking stocks.

One bank holding company that some pros believe is a target is City National (CYN). Its sole subsidiary, City National Bank in Beverly Hills, Calif., provides commercial banking services for small-to-midsize companies through its 16 offices in California. The shares, trading at 12 on the Big Board, are "behaving in a pattern that indicates buying pressure is coming in at progressively higher prices," says one arbitrageur at a New York investment bank. "Whenever the stock falls back, it closes at levels higher than the prior-day closing price. That means the shares are under serious accumulation."

One takeover investor, who figures City National shares are worth about 20 in a takeover, says First Interstate, another California bank, is eyeballing the company. He suspects that California's two biggest banks, BankAmerica and Wells Fargo, are also interested. Spokespersons for BankAmerica, City National, First Interstate, and Wells Fargo declined comment.

The sixth-largest bank in California, City National returned to profitability last year after two years of losses. Analyst Johnny Svoren of *The Red Chip Review* in Portland, Ore., says City National's restructuring and consolidation efforts helped resuscitate the company. He sees City National making 89¢ in 1995 and 96¢ in 1996, from 81¢ last year.

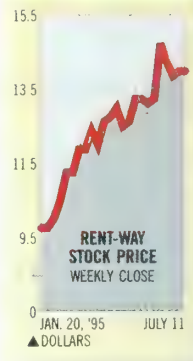
RENT-WAY IS NO COUCH POTATO

Controversial as its business may be, Rent-Way (RWAY) is attracting some savvy investors. Shares of this little-known operator of 19 stores in Florida, Ohio, and Pennsylvania selling rent-to-own furniture have rocketed to 14, up from 9⅝ in January. For a company that went public at 7 in 1993, that's quite a dash. And some big investors think the stock has a long way to run. What's so hot about Rent-Way or its business anyway? "Growth, growth, growth," says one New York money manager.

Indeed, Rent-Way's growth has been phenomenal. And more may be coming thanks to its recent acquisition of McKenzie Leasing, which owns 45 rent-to-own-furniture stores in six states. That will double Rent-Way's revenues to $45 million, says Rent-Way President and CEO Bill Morgenstern.

But more important, earnings should also more than double in 1996. Analysts figure that without the acquisition Rent-Way's 1995 net would be 40¢ a share on estimated sales of $22 million. In 1996, with McKenzie on board, Rent-Way will make 80¢ to 90¢ a share on sales of $45 million, they figure. Based on these projections, Rent-Way shares are worth at least 25, says one analyst.

SITTING PRETTY



DATA: BLOOMBERG FINANCIAL MARKETS

Once fragmented, this $5 billion industry is consolidating, he notes, partly because of consumer complaints about some sleazy operators. But many marginal outfits are being replaced by companies with good management and a corporate structure with standardized services, analysts say. The stores cater to low-income families that have no credit. They pay cash to rent furniture—and TVs—with an option to buy.

ED BY OTIS PORT

HE LAB, ENDIPITY DEMAND

RIALS SCIENCE IS THE rstone of most high-ology industries—from onics to plastics to auto-e engineering. But ces in the field e painfully slow. ally, it takes day for re-ers to con-ust one andidate rial and through a y of tests. w, scientists at ence Berkeley National atory have developed a method for screening ompounds that promises to transform materials research. It can radically accelerate the one-a-day pace—to 10,000 per day.

This is crucial, because the number of possible compositions is almost endless. A material that combines five elements, for example, has millions of permutations. That's why the bulk of important discoveries has been "serendipitous," says physicist Xiao-Dong Xiang.

To automate serendipity, Xiang and chemist Peter G. Schultz have developed a "combinatorial" approach that resembles chipmaking technology. A little checkerboard pattern of thin films is deposited through a "mask," or stencil. The first ingredient's film covers the entire grid, but the masks for following films block out certain squares. Result: Each tiny square ends up as a different composition.

The technique has already been used to create a library of high-temperature superconductors. And now it is being used to examine various magnetic and optical materials.

A SUPERATOMIC SORBET

IT LOOKS ALMOST LIKE A pit inside a tiny, translucent cherry. In fact, it is a totally new state of matter—something so cold that it could never exist in nature. It popped into existence last month at the Joint Institute for Laboratory Astrophysics (JILA) in Boulder, Colo.

The cherry pit is a cluster of rubidium atoms that merged into a single huge superatom 20 microns across, or a quarter the size of a human hair. It happened when some 2,000 rubidium atoms were subjected to the coldest temperature ever: just billionths of a degree above absolute zero, or –273.15C.

Surrounded by a cloud of still normal matter, the coldest atoms collapsed into the new state, called Bose-Einstein condensate because its existence was predicted by Albert Einstein and Indian physicist Satyendr Nath Bose. This breakthrough is expected to lead to new insights in quantum mechanics, which could prove valuable in semiconductors and superconductivity.

STER THAN A SPEEDING LOCOMOTIVE: MAG-COG?

ROPE AND JAPAN ARE BUILDING "FLYING" TRAINS THAT COULD HIT 300 MPH. BUT earchers at Sandia National Laboratories in Albuquerque have come up with a back-he-future concept that could be just as fast—and cheaper. It's a takeoff on cog rail-ds, the venerable technology that helps locomotives climb steep mountains.

The overseas systems rely on magnetic levitation—magnetic fields that lift a train off tracks and propel it forward on a thin cushion of air. But this requires very costly tracks. Sandia's approach would use existing tracks—plus a ladderlike fence erect-alongside. Electromagnets on the locomotive would generate magnetic "gears" that age the ladder and push the train to speeds of 200 mph. And with new precision-le rails, magnetic-cog trains could easily reach 300 mph.

Sandia's train is a spin-off from the Star Wars program, when the lab worked on a get that would use magnetic pulses to shoot projectiles into space. That technology already produced a crude model locomotive, which hits 34 mph in just 12 feet. xt, "to get out of the lab and onto the rails" for real-world experiments, Barry M. rder, the physicist heading the project, hopes to raise $1 million.

HTY MORPHIN' VOICE RANGERS

YOU, TOO, CAN SOUND a muscle-bound hulk—if you are a woman. can also record a song give yourself perfect no matter how off-key voice originally sounded. ou can compress voice dings thirtyfold or more ompact storage and fast mission. You'll just need Vox, a new package of onal-computer software Voxware Inc. in Skillman, N.J. "I have never seen anything that can do the things they can do," says William I. Strauss, president of Forward Concepts Co., a multimedia market-research company.

Voxware's secret is that the software is specifically tuned to work only on voices, distinguishing their components, such as the harmonics of vowel sounds or sibilant sounds ("s" and "z"). The re-

sult is a logical model, not the usual jumble of frequencies, according to Research Vice-President J. Gerard Aguilar, who has been developing the tools since 1991. Once a voice has been disassembled, he adds, Voxware can be employed to "morph" it or to play it back at high speed without turning a drawl into a squeak. Strauss says voice quality remains very good even at a 30-to-1 compression rate—vs. just 4-to-1 for the most commonly used compression standard. Shipments to software developers and publishers began this month.

ILLUSTRATIONS BY LINDA BLECK

ENERGY

SUNUP AT LAST FOR SOLAR?

New technology powers a surge in investment

CATCHING RAYS: *Solar houses need no unsightly panel*

Steven Strong became a solar-power convert while working on one of the world's largest oil reserves. As an engineer in the early 1970s, he helped design power stations along the Alaska pipeline. The challenges in transporting fuel across the vast wilderness persuaded him that "saving a unit of energy is far easier than producing it."

Returning to Boston, he started Solar Design Associates to make energy-efficient houses. Strong eschewed bulky rooftop arrays for collecting the sun's energy. Instead, he embedded semiconductors that convert sunlight to electricity, called photovoltaic cells, directly into walls and roofs. But the materials were expensive, and only well-heeled enthusiasts signed up.

Now, 20 years after Strong pioneered the concept, such "building-integrated" photovoltaics are looking a lot more viable. For one thing, solar cells cost just one-third what they did in 1980. Contractors and homeowners like building-integration because the new components replace conventional building materials, effectively reducing the cost. And utilities are attracted because solar cells will generate surpluses during peak daytime hours, creating an energy pool that power companies can tap.

POLARIZED. Building-integration is just one of the trends fueling a global boom in photovoltaics. The market is still tiny—just $310 million in 1994, according to consultant Paul Maycock of PV Energy Systems in Catlett, Va. But it's growing 30% a year. Assuming devices continue to get cheaper and more efficient, "it's very likely that solar power will be fully economic" by early in the next century, Maycock predicts. By then, the world market could surge to $7 billion a year.

Today, most of America's 100,000 solar-powered houses are rural dwellings not connected to a utility grid. Indeed, utilities have been traditionally wary of alternate energy schemes. And they are still polarized on the subject.

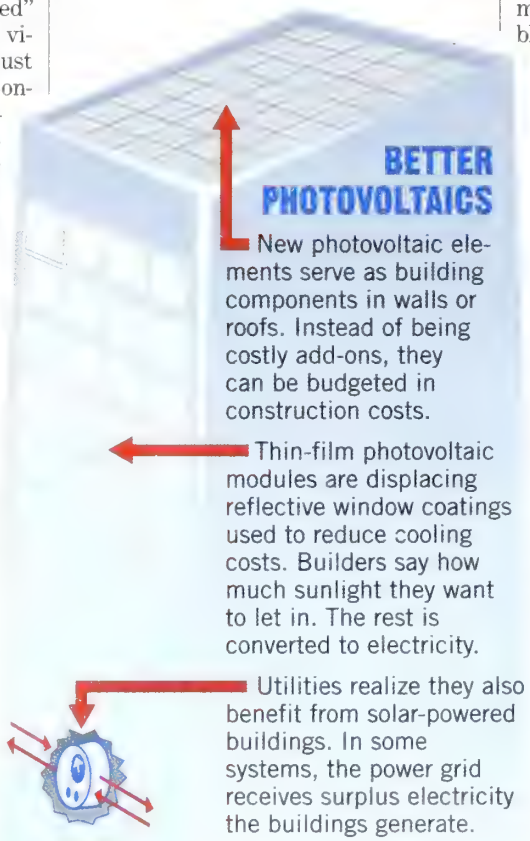
But gradually, a core group has been converted. One of the most forward-looking, the Sacramento Municipal Utility District (SMUD), is installing rooftop arrays on hundreds of houses. SMUD and 90 other utilities have banded together to promote photovoltaics. They're prepared to spend $368 million over five years, backed by $130 million in government seed money.

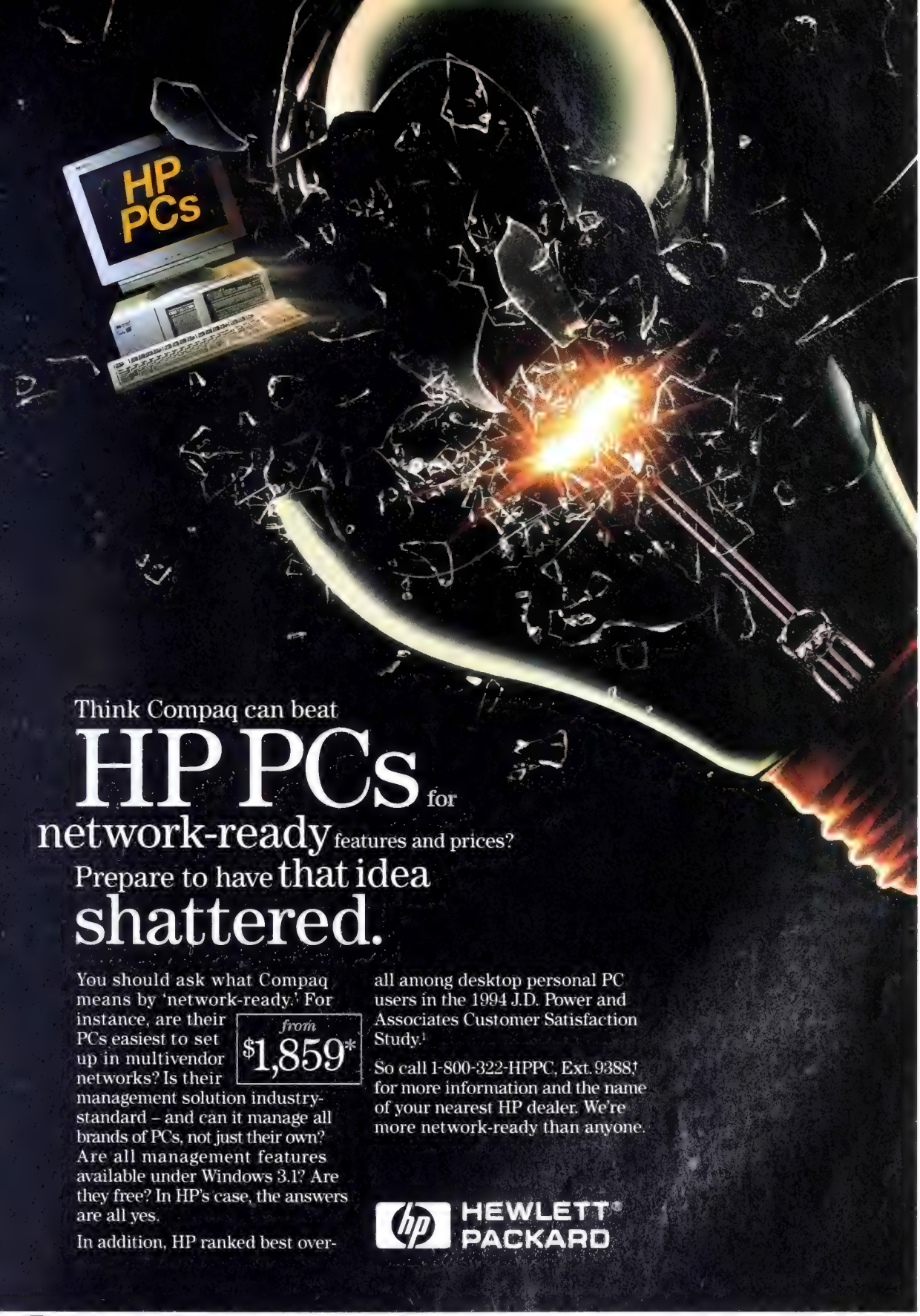
California isn't alone. In Texas, City of Austin Electric Utility has spent $4 million to put photovoltaics in its service area. It's also footing the bill for rooftop systems on dozens of houses. Austin swallows the extra cost—and even pays customers for the use of their roof Why bother? "It's an investment in th future," says John Hoffner, who ru the program. When the buildings sta generating surplus electricity, Aust can draw on the pool.

The New York Power Authority h a similar plan to install 50 roof systen over the next five years. It has asser bled a consortium of buyers to purcha 10 megawatts worth of cells over fi years, starting in 1997. The aim: to lo er the cost of solar modules from per peak watt today to $1.50. Ma Kapner, the utility's alternative-energ manager, says solar power could poss bly compete with grid electricity in Ne York City and Long Island by 2000

"GREEN" IMAGE. With strong suppo from this vanguard of utilities, th building-integrated movement quickly gathering steam. Under cost-sharing program with the Ene gy Dept., two companies—United S lar Systems Corp. in Troy, Mich., ar Solarex Corp. in Frederick, Md.- will soon introduce products such a solar roof shingles for houses ar opaque glass facades—or "curta walls"—for commercial buildings.

Building owners who budget f premium materials can save mone by using the new solar component Curtain walls from Solarex—a joi venture of gas and oil giants Enr Corp. and Amoco Corp.—should co less than high-end materials such a marble, and generate electricity boot. They bestow a valuab "green" image on commercial buil ings. And there's a natural appe for homeowners. Says analyst B O. Johnson of Strategies Unlimi ed Inc. in Mountain View, Cali "For less than the price of a fu size automobile, you can buy a ro that takes care of your energ





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needs for the next 25 to 30 years." In a best-case scenario, Arthur D. Little Inc. reckons the U.S. building-integrated market could hit $2.6 billion in 2005—provided utilities rev up purchases.

Why has solar power taken so long to catch on? Economics, mostly. Manufacturing crystalline silicon devices—semiconducting crystals of silicon laminated to glass—is an expensive proposition that involves casting the material into ingots at high temperatures. The materials aren't cheap either. As a result, solar energy is still twice as expensive as utility power.

SHAVING COSTS. New types of solar cells, such as thin-film devices, offer a possible solution. They're produced by depositing a silicon-alloy vapor on glass or metal—a relatively inexpensive process. And unlike atoms in crystals, thin-film atoms are randomly arranged—or "amorphous"—which ensures better light absorption. Amorphous silicon thus requires just 1% of the costly photovoltaic material that the crystalline form needs. Shaving costs in this way, manufacturers should be able to cut the price of solar modules in half by the end of the decade, says Scott Sklar, executive director of the Solar Energy Industries Assn. in Washington.

Thin-film efficiency is still low—just 6%, compared with 13% for crystalline silicon. But scientists at United Solar, which is partly owned by Canon Inc., have pushed it as high as 10% in the lab. And thin films got a big vote of confidence in June, when Solarex announced plans to build a 10-megawatt thin-film plant in Virginia.

Skeptics point out that commercial success hinges on support from Washington at a time when budgets for alternative energy are under the scalpel. Last month, the House Appropriations Committee voted to cut allocations for solar and other renewable energy technologies in half, to $201.6 million, for the fiscal year beginning Oct. 1.

Solar supporters in the Senate, though, remain optimistic. They hope to limit cuts when the Senate Appropriations Committee meets later this month. Further on the fringe, advocates like Steven Strong think the building-integrated movement could usher in the long-awaited Solar Age, where town buildings become power producers, giving new meaning to the phrase "a thousand points of light." They envision a world with no brownouts and no need to scour the globe for the last drops of oil. Of course, similar dreams have inspired solar visionaries for over a century. But if building-integration captures the public imagination, they could finally find their place in the sun.

By Ingrid Wickelgren in New York

MEDICINE

FIRST, DO NO HARM. THEN, GET A PATENT

Should surgical techniques be given protection?

It wasn't exactly what Samuel L. Pallin was seeking in the spring of 1990, when he put the finishing touches on a research article and submitted it to the *Journal of Cataract & Refractive Surgery*. Pallin, an ophthalmologist in Sun City, Ariz., claimed to have developed a new technique for performing stitchless cataract surgery and was hoping to earn the imprimatur of a prestigious trade publication. What he got instead was a tersely worded rejection letter that, among other things, dubbed his research of "very little importance."

The U.S. Patent & Trademark Office thought differently, however. The agency issued Pallin U.S. Patent No. 5,080,111 for his surgical innovation in January, 1992. Now, instead of seeking accolades from colleagues, Pallin wants their money. He's hoping to collect hefty royalties from 2,000 eye surgeons who perform his cataract technique on patients an estimated 500,000 times a year. His first offensive: a patent infringement case filed against Vermont ophthalmologist Jack A. Singer. "I'm going to enforce my patent," vows Pallin, 54. "I'm not going to accept a handshake."

PALLIN: *"I'm not going to accept a handshake"*

Pallin's legal quest highlights the growing conflict between the tough new economics of managed care and the tradition of freely sharing expertise and ideas for the benefit of patients. Squeezed by the rising costs of providing health care and by a decline in their personal income, a growing number of enterprising physicians are turning to surgical-technique patents for new sources of revenue. The U.S. Patent & Trademark Office says it's now granting some 15 surgical-method patents to doctors a week—up from just a trickle of such actions three years ago. These exclusive rights cover even the most commonly used medical practices such as blood-collecting techniques or administering insulin. "It's a way for physicia who have spent time and money do research to get their money back," sa Stephen G. Kunin, the office's depu assistant commissioner.

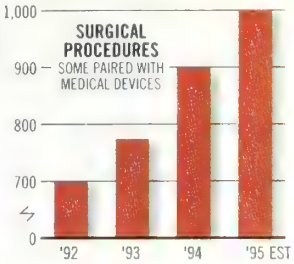
UNETHICAL? The trend has splinte the ranks of the medical establishme The American Medical Assn. issued uncharacteristically blistering stateme last month declaring the patenting surgical methods unethical. Further, group decried attempts by physicia such as Pallin to enforce their intellec al-property rights as opportunistic. T AMA and other critics worry that forci doctors to pay royalties on surgical p cedures will drive skyrocketing me cal costs even higher and limit so consumers' health-care options. "If ph sicians start franchising healing like B ger Kings, we're all in trouble," war David Berkowitz, director of technolo assessment at Premier Health Allian Inc., a cooperative of 225 hospitals.

In Pallin's lawsuit, believed to be t first of its kind, the Arizona ophth mologist is seeking just $5 per ope tion. That doesn't seem like much, co sidering that his technique, which has written about in medical journ and has taught to other ocular surgeo significantly reduces the risk of patier developing astigmatism following ca ract surgery. But given the frequency the procedure, Pallin stands to ma

nillion every year. if he succeeds in ng that Singer and s infringed on his . Defendants will that Pallin's sur- discovery doesn't a patent since it dely known and

e same kind of all could come to D. Stephens, a San (Calif.) physician ecently put dozens of radiologists ice that he plans to sue them over gement of his 1991 patent on an in- ve ultrasound procedure used in nining the gender of a fetus. And Health Resources, a group of urol- in Kansas City, Mo., has threat- 500 colleagues with litigation if lon't pony up a $350 licensing fee ear to use its patented treatment potence. "The economics of medi- oday are driving doctors into the stream," says Vermont patent ey John Welch, who represents ians who hold surgical patents. doctors dismiss claims that en- nent of their patents is immoral.

PATENTS ARE PILING UP



DATA U.S PATENT & TRADEMARK OFFICE

But critics point out a big difference between the Baxter scenario and Pallin-type cases. Whereas universities and companies invest heavily in their researchers' discoveries and to bring new products to market, surgeons such as Pallin derive patents from clinical experience. Moreover, opponents fear that enabling doctors to patent their inventions, which can be a lengthy process, will unnecessarily delay treatments for patients who need them most. "This isn't about toothpaste," gripes Chicago patent attorney Ronald L. Wanke, who represents several radiologists who have been contacted by Dr. Stephens. "This is about the best way to cure a health problem and how much that cure will cost."

PATENT LAW PENDING. The brouhaha has spilled over into Washington politics, as well. A bill, pushed by the AMA and co-sponsored by Representatives Greg Ganske (R-Iowa), himself a surgeon, and Ron Wyden (D-Ore.), would strictly prohibit the patenting of medical procedures. The ban already exists in several foreign countries including Germany, Japan, Britain, and France.

BATTLE LINES IN THE O.R.

PROS	CONS
Doctors favoring patents say they:	*Medical groups opposed to patents say they:*
rovide incentives to doctors to und research efforts	• Inhibit access to new medical innovations and reduce quality of care
nable physicians to benefit nancially from medical iscoveries	• Drive up health-care costs by imposing licensing fees on physicians
roaden channels for professionl recognition	• Invite abuse by physicians making spurious claims for protection

DATA: BUSINESS WEEK

r, they say they are simply ask- the same financial recognition for ant contributions to medicine en- by many university researchers rporations. As a comparison, they to the relationships between doc- nd manufacturers. Medical device Baxter International Inc., for in- , licensed the rights to a treat- for kidney failure held by a group sicians at the University of Texas n the 1970s. The company then ped a small portable dialysis sys- be used in tandem with the pat- procedure, which today is among test-selling products. "Without [the s'] exclusive rights to the process, uldn't have had any incentive to in and to manufacture the device oes with their process," says Paul ttery, Baxter's chief patent counsel.

It's too early to tell whether infringement litigation will become widespread enough to prevent doctors from using certain surgical methods or inspire insurers to jack up premiums. But no matter what the consequences, Samuel Pallin seems unlikely to change his renegade course. "Physicians have always turned to the medical establishment to get recognition," Pallin says. "I'm taking away their authority by going through the U.S. government, and they don't like it." Whether Pallin and like-minded colleagues can bank on patents to cushion the blow of health-care reform may depend on how many of them leave the operating room for the courtroom.

By Ron Stodghill II in Chicago

EDITED BY AMY DUNKIN

MAKING YOUR NEST EGG LAST AS LONG AS YOU DO

Afraid you will spend your golden years working under the Golden Arches? You're not alone. Many people who are on the brink of retirement experience a host of fears associated with losing the ultimate security blanket: a regular paycheck. Chief among these fears is that you'll outlive your money, inflation will deplete your nest egg, a bad investment will sink your savings, or you'll get waylaid by a catastrophic illness.

Such anxiety can undermine the leisure you've anticipated so long. "If you don't enjoy the money you've saved for retirement, you're no better off than the person who never saved," says Norman Chiodras, a financial planner in Oak Brook, Ill. By figuring out how much you'll need before you retire, you can prepare for any frightening eventualities without going through the late-night sweats.

The good news is that people are living longer, healthier lives. But if you stick around longer than you planned to, you don't want to be forced to switch from filet mignon to Nine Lives. "Most people today have enough money to retire and live until their mid-70s," says Nadine Gordon Lee, a personal finance adviser at Ernst & Young. "It's that extra 10 years that seem to be a problem." So, if you quit working at 65, you need to plan on providing for yourself for 20 more years or so.

RETIREMENT PLANNING

Step one is to determine how much you currently spend to maintain your lifestyle. Using checkbooks, ATM statements, and credit cards, examine how you spent last year's income. Or look at your income and subtract what you've saved, taxes paid, and any unusual items, such as car repairs or home improvement, says Lee—and "the rest went to your lifestyle." Figure on some expenses disappearing if you pay off your mortgage or finish bankrolling your children's education. But other costs are likely to crop up, especially in the early years, when you finally take that European tour or start that kitchen remodeling you've been putting off.

Next, calculate all of your sources of income. These fall into three categories: Social Security, pension benefits, and personal savings. You can get a personalized estimate of your Soci Security benefits from t Social Security Administr tion (800 772-1213) and yo estimated pension incon from your company's perso nel department. Ask wh you would receive if y retired at the ages of 55, 6 and 65.

Now, you have a roug idea of what you have to r tire on. But how do y make that last? Visit a fina cial planner or buy a retir ment- or financial-plannin computer program that le you play with the number Some good software picks i clude Quicken Financial Pla ner, Price Waterhouse R tirement Planning, and Ri & Retired from Datatec

ILLUSTRATIONS BY JOHN KLEBER

re in Harrisburg, Pa. l planner will use a program to do the ing for you—and dis- our doubts and fears. way, you need to plug variables: income, ex- retirement age, mor- inflation rate, return stments, and whatev- ial needs you have. u discover a shortfall n what you need to comfortably and what saved, there are ways ge the gap. You can onger, shoulder a lit- re investment risk, lower your income ments—or combine all "I usually start with we are from meeting oals if we did noth- ays Ernst & Young's nd then find the least onable thing to close ." For example, if you and your job, maybe ation is retiring early ng low on the hog for ears.

of making the mon- is beating back the han, inflation. Over your pension won't and Social Security t remain indexed for in the future. Over st 30 years, inflation eraged 5%, so that's starting point for different scenarios. the numbers to make ur rate of return will flation by at least 2%

No. 1 defense against is investing in the markets, says Lee, se, historically, long- elds on equities have the highest return." average some 10% a s. 5% for bonds. "Un- tely, as people get old- get more conserva- d are not willing to in stocks," says Ste- vey, a Denver-based d public accountant. es "should have 25% e in the market."

ng on risk at this late f the game is a scary t. But there are ways ulate yourself from

People are living longer—and "it's that extra 10 years that seem to be a problem"

market swings. First, figure out if you can afford the luxury of guaranteed investments. If you have enough to live off returns from Treasuries and certificates of deposit for a few decades, by all means do so. The only reason for you to take on risk is to benefit or support your heirs.

However, if fixed income won't get you where you want to go, you can stay ahead by dividing your investments between guaranteed securities for near-term income and equities for long-term growth. "It's vital that people invest a portion of money in guaranteed investments so they know their lifestyle is not going to change," says Chiodras. "If you put all your money into something that will fluctuate in value, your lifestyle will fluctuate, too."

One of his clients did just that—plunging an $800,000 lump-sum pension withdrawal into bonds and utilities in early 1993, just before those markets crashed. The client felt devastated by his $120,000 loss. To help him recover, financially and emotionally, Chiodras told him to put half his money into guaranteed annuities and Treasuries and half into no-load growth funds. That way, while he is living off the guaranteed investments, the other portion is growing to take its place down the line.

Having negotiated between the Scylla and Charybdis of inflation and market volatility, what's left is to hope you die a quick and painless death. A lingering illness or stroke could consume your carefully cultivated savings in nursing-home and hospital costs. While the very wealthy can afford medical help and the poor are eligible for government aid, "it's the middle class that's out there half-naked," says Lee. One alternative is to begin an orderly estate-planning process well in advance of a debilitating illness, gradually decreasing the assets in your name. Then, if you have to enter a nursing home, you won't have to eat through all of your assets before becoming eligible for Medicaid. Elder-care lawyers specialize in helping clients divest assets that could wind up paying for a nursing home. "Most Medicaid-type planning does not start until there's a serious illness. By then, it's too late," says Lee. "Most people just hold their breath and hope it won't happen."

PREMIUM PLAN. Probably the best way to breathe easier—if you can afford it—is to buy some form of long-term-care insurance, which ranges from about $900 a year at age 50 to $2,800 at 70. Some guides to finding long-term care include *Beat the Nursing Home Trap* from NOLO Press/Folk Law Inc. (800 992-6656) and *A Shoppers Guide to Long-Term Care Insurance* from the National Association of Insurance Commissioners in Kansas City, Mo. (816 842-3600). You should also find out whether your company offers any extended health-care benefits to help span the gap between an early retirement and Medicare eligibility at age 65. Some employers offer discounted group long-term-care programs for retirees.

Fear of the unknown is really the biggest fear expressed by those facing retirement. And though you can't predict any of the variables with certainty, the more you know about what you'll have, the less you'll have to fear. Ironically, it's planning for the worst that will end up giving you the best your retirement years have to offer. *Pam Black*

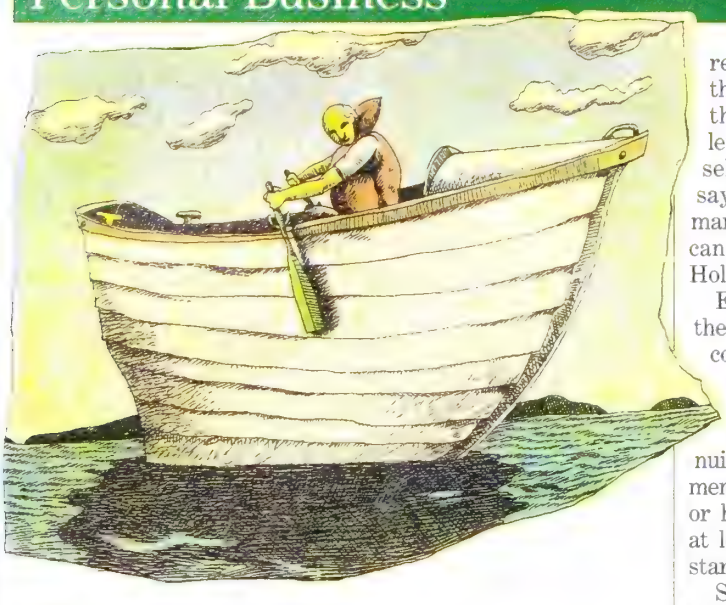
Four Fears of Retirement

OUTLIVING YOUR SAVINGS
Plan as if you and your spouse will both live until age 90. Use software or a financial planner to project post-retirement expenses and income sources, noting how long your money will last under different scenarios.

INFLATION
You should be making 2% to 4% after inflation on your retirement savings to ensure that you keep your money growing at a respectable rate. Historically, stocks with an average 10% return are the best way to outpace inflation.

LOSING INVESTMENTS
Insulate yourself from market volatility by dividing your money into a pool of guaranteed investments such as Treasuries (for the near term) and one that can be invested in stocks or other growth vehicles (for the long term).

CATASTROPHIC ILLNESS
One option is to work with an elder-care lawyer to divest most assets that would go to a nursing home should you become seriously ill. Or plan on spending around $3,000 a year after retirement for long-term-care insurance.



IS AN ANNUITY THE RIGHT SAFE HARBOR?

If you worry that you haven't amassed enough funds to retire anytime close to the date you'd like, a variable annuity might help get your plans on track. But these investment products, which allow you to craft a tax-deferred portfolio that can later be converted into an income stream, aren't suitable for everyone.

You pay high fees for the right to accumulate assets tax-deferred in a choice of mutual funds. And only those investors who meet a lengthy set of criteria are likely to overcome the costs and reap real benefits. Here's how to figure out whether an annuity is right for you.

REGULARITY. In general, annuities make the most sense for people who are in a high tax bracket now but expect to be in a lower bracket when they start withdrawing money. Also, annuities are much more efficient if you plan on using the money to supplement your retirement income by receiving your payout in regular installments. If you liquidate the lump sum, you'll owe income tax immediately on all of the earnings. It's far better to remove the money periodically, while the bulk of your cash continues to grow tax-deferred.

But before you even think about an annuity, you should be contributing the maximum amount to any tax-deferred retirement plans you are eligible for, such as a 401(k) or an individual retirement account. Even if you don't qualify for a deductible IRA, you should be stashing the maximum $2,000 a year in aftertax money in an IRA before turning to an annuity. That's because IRAs don't come with the extra layer of fees.

The average variable annuity has underlying expenses of 1.25%. In addition, the average fund expense is 0.77%. You usually pay an annual charge of $28 and, if you want to cash in, surrender charges that start out around 5.5% but decline over six to eight years, says investment tracker Morningstar. Also, most people face a 10% penalty if they withdraw funds before age 59½. On a positive note, these fees and restrictions may give you the motivation to stay with the program. "The lower level of liquidity is almost a self-discipline mechanism," says Wade Dokken, chief marketing officer for American Skandia Investment Holding.

Eventually, the benefits of the tax deferral should overcome the drag of the high fees—but you'll need to invest aggressively. Even ideal candidates for an annuity should let their investments, predominantly in stock or high-yield funds, grow for at least 10 years before they start receiving income.

Since annuities require you to take more risk and have less access to the money, make sure you already have more liquid funds set aside to cover major expenses as well as emergencies. An annuity really shouldn't be used for the majority of your taxable investable assets, says Farrell Dolan, vice-president for marketing at Fidelity Investments Life Insurance. To help you figure out what percentage of your assets should be in an annuity (if any), Fidelity has designed a free worksheet called AnnuityMatch. Call 800 544-2442 for a copy.

RETIREMENT PLANNING

Even if you clear all th hurdles, an annuity might have much to offer. Desp the appeal of tax defer there is a negative side the treatment of annuit that investors in income brackets 31% or higher n to keep in mind: When m ey is withdrawn, all of gains are taxed as ordin income—even long-term c ital gains, which otherw would be taxed at 28%.

SIT TIGHT. Proposals in C gress to cut the capital-ga rate would make annuit even less attractive. you're a stock jockey, the would probably consider w ing it out," says Jenni Strickland, an editor in Mo ingstar's Variable An ity/Life department. But advises people not to give proposals too much wei since there probably will many tax-co changes dur the decade more in which you sho plan to hold an annuity.

Don't leave the mon there indefinitely, though, cause your heirs would taxed on the earnings. contrast, outside an annu any unrealized capital ga could be passed to them t free. "If your goal is to ac mulate money to pass on your kids, annuities not the way to go," s Gordon Williamson, thor of *The 100 Best A nuities You Can B* (Wiley, $19.95).

Ultimately, your sa faction with a varia annuity will have a more to do with perf mance than tax tre ment. "If you put y money into a lousy pr uct, you're going to ha a lousy return," s Strickland. To find a g annuity, take into acco past returns, fees, a costs relative to amount of service yo like. But before you vest your time and eff in choosing one, ma sure an annuity belo in your bag. *Amey St*

Annuity Checklist

If you answer "Yes" to each of the following five questions, you might want to consider buying an annuity:

- Have you already invested the maximum you can in other retirement-plan options?
- Have you set aside funds to cover major expenses as well as unexpected emergencies?
- Can you do without the cash for 10 to 15 years or longer?
- Do you intend to take the income in regular, systematic payments?
- Is your tax bracket higher now than it will be when you retire?

DATA: FIDELITY INVESTMENTS, AMERICAN SKANDIA

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$50,000 more than the
insured by the Fed-
using Administration.
e government-backed

RETIREMENT PLANNING

Fannie Mae plan is more secure than those of uninsured private companies. FHA and private reverse mortgages are available in every state except South Dakota and Texas.

With a reverse mortgage, a borrower takes out a loan at a predetermined rate and promises that when he or she dies or moves out, the bank will receive its principal plus accrued interest from the property's sale. The bank never owns the home—and you aren't in danger of losing it unless you fail to pay your insurance or taxes or let it go to waste. Of course, many people tap their equity through a home-equity loan. But you don't repay a reverse mortgage as long as you're living in the home, and you can qualify with little income.

It's possible for a loan to absorb or exceed the entire equity. If an owner of a home valued at $100,000 gets a reverse mortgage that pays $10,000 a year based on a life expectancy of less than 10 years and then lives 20 years, the lender will pay at least $100,000 above the value. Since reverse mortgages are nonrecourse loans, meaning the lender can't go after other assets or heirs, borrowers must buy insurance to cover that risk. With the FHA's Home Equity Conversion Mortgages, insurance is paid up front, at 2% of the home's appraised value. Private lenders pass the cost along in higher interest payments.

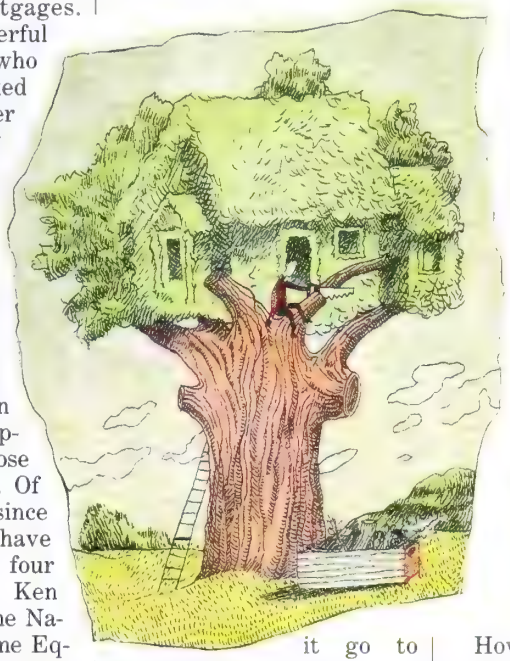
Borrowers must also pay appraisal and other closing costs. These are added to the amount owed when the home is sold. For this reason, Bronwyn Belling, a housing specialist at American Association of Retired Persons, calls reverse mortgages "front-ended" and says they're not a wise choice if you plan to move in a couple of years.

How you collect depends in part on why you need the mortgage. If you come up short when bills are due, you may want a monthly payment. If you need to pay off a debt, you'd likely take a lump sum or a credit line. A lump sum erases risk that a private lender may not be able to meet future payments. And the older you are, the more equity you can borrow against.

With all of these options, take your time deciding. If you don't feel strongly attached to your home, simply selling it will provide a debt-free means of raising cash. Assess how well your home will age with you: Some require extensive retrofitting since many older residents have trouble with stairs or must use a wheelchair. All FHA borrowers must meet with a counselor before an approval is granted. Counseling is free and also available to private-lender borrowers.

Starting on Oct. 1, new truth-in-lending rules mandate clear disclosure of the total cost of every loan, but many lenders provide this already, so ask for it. For more information, send $24.95 for *Your New Retirement Nest Egg* to the National Center for Home Equity Conversion, 7373 147th St. West, Apple Valley, Minn., 55124. A list of national reverse-mortgage lenders is available (free to all) in the AARP's *Home Equity Conversion Information Kit* (D15601), AARP Fulfillment (EE0903), 601 E St. N.W., Washington, D.C. 20049.

A reverse mortgage can help cash-strapped retirees who love their homes. But make sure you choose the right one. Even Atlas has his weaknesses. *Nanette Byrnes*



Comparing Reverse Mortgage Plans

FHA-APPROVED Through mortgage brokers in 48 states. Closing costs and insurance total 4% of the home's value, but over time, it's the cheapest plan. Maximum home value loaned against is $152,362.

THE FREEDOM PLAN (800 637-3336) Pays you cash in one lump sum, with which you can buy an annuity that travels with you if you move. All costs are up front. Maximum loan is $750,000.

TRANSAMERICA HOMEFIRST (800 538-5569) Offers a monthly fixed-interest-rate income payment or a variable-rate credit line. Maximum is $750,000.

HOUSEHOLD'S EVER YOURS (800 414-3837) Offers a line of credit with a book of checks for withdrawals. The interest rate readjusts monthly at the prime rate plus 3%. Maximum is $500,000.

DATA: COMPANY REPORTS

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nd CEO,

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President, and CEO,
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Rubbermaid Incorporated

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Governor,
The Commonwealth of
Massachusetts

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Chairman and CEO,
Whirlpool Corporation

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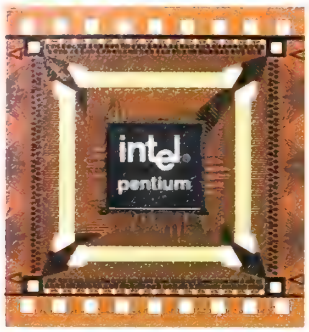
MOBILE PENTIUM.



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intel inside pentium PROCESSOR

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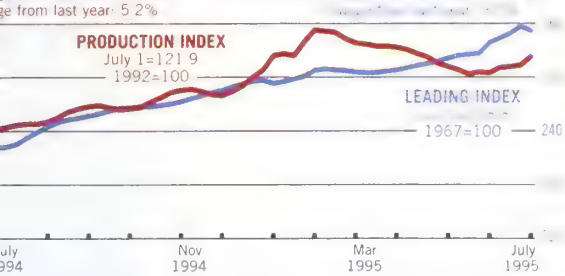
In Touch with Tomorrow

TOSHIBA

ısiness Week Index

DUCTION AND LEADING INDEXES

ge from last week: 0.6%
ge from last year: 5.2%



es are 4-week moving averages

oduction index rose for the week ended July 1. Seasonally adjusted of autos, trucks, and paper increased. Before calculation of the four-oving average, the index rose to 123.2, from 122. In June, the index t 121.9, up from May's 120.4.

ding index fell in the latest week. The unaveraged index was unchanged 5. Falling stock prices and rising bond yields offset faster growth in ls prices. The June index jumped to 259.1, from 255.6 in May.

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (7/8) thous. of net tons	1,919	1,859#	1.3
AUTOS (7/8) units	11,924	124,295r#	–43.9
TRUCKS (7/8) units	20,070	120,702r#	–12.9
ELECTRIC POWER (7/8) millions of kilowatt-hrs.	63,775	66,514#	–7.0
CRUDE-OIL REFINING (7/8) thous. of bbl./day	14,400	14,570#	1.4
COAL (7/1) thous. of net tons	18,615#	20,064	–0.1
PAPERBOARD (7/1) thous. of tons	926.8#	941.2r	4.1
PAPER (7/1) thous. of tons	842.0#	833.0r	1.7
LUMBER (7/1) millions of ft.	411.4#	423.7	–10.9
RAIL FREIGHT (7/1) billions of ton-miles	23.4#	23.7	3.5

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Forest & Paper Association, WWPA[1], SFPA[2], Association of American Railroads

DING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
PRICES (7/7) S&P 500	551.18	543.98	23.1
RATE BOND YIELD, Aaa (7/7)	7.29%	7.29%	–10.9
TRIAL MATERIALS PRICES (7/7)	115.0	115.3	NA*
ESS FAILURES (6/30)	NA	NA	NA
ESTATE LOANS (6/28) billions	$485.8	$485.0	12.2
SUPPLY, M2 (6/26) billions	$3,663.5	$3,660.5r	2.6
L CLAIMS, UNEMPLOYMENT (6/24) thous.	369	396	4.5

s: Center for International Business Cycle Research (CIBCR), Standard & Moody's, *Journal of Commerce* (index: 1990=100), Dun & Bradstreet (failures companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on failures and real estate loans. *Historical data available from CIBCR

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (7/12) $/troy oz.	386.700	384.250	0.5
STEEL SCRAP (7/11) #1 heavy, $/ton	140.50	140.50	20.6
COPPER (7/8) ¢/lb.	141.5	142.5	23.8
ALUMINUM (7/8) ¢/lb.	85.0	84.5	17.2
COTTON (7/8) strict low middling 1-1/16 in., ¢/lb.	100.60	105.38	40.8
OIL (7/11) $/bbl.	17.25	17.40	–6.0

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX

REST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
AL FUNDS (7/11)	5.75%	5.89%	4.30%
ERCIAL PAPER (7/12) 3-month	5.73	5.94	4.80
FICATES OF DEPOSIT (7/12) 3-month	5.73	5.88	4.78
MORTGAGE (7/7) 30-year	7.86	7.80	8.81
TABLE MORTGAGE (7/7) one-year	5.86	5.83	5.55
(7/12)	8.75	9.00	7.25

s: Federal Reserve, HSH Associates, Reuters Holdings PLC

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (7/12)	87.53	84.96	97.99
GERMAN MARK (7/12)	1.40	1.38	1.55
BRITISH POUND (7/12)	1.59	1.59	1.56
FRENCH FRANC (7/12)	4.88	4.84	5.33
ITALIAN LIRA (7/12)	1619.0	1622.9	1544.5
CANADIAN DOLLAR (7/12)	1.35	1.37	1.38
MEXICAN PESO (7/12)[3]	6.110	6.240	3.398

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars

ata in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense nt. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

HE WEEK AHEAD

ESS INVENTORIES

, July 17, 10 a.m. ▶ Inventories manufacturers, wholesalers, and s probably increased by 0.5% in cording to the median forecast of ists surveyed by MMS International, The McGraw-Hill Companies. Manu-s have already reported a 0.6% gain stock levels, but wholesale invento-e nearly unchanged for the month. ries rose by 0.8% in April, and a accumulation in inventories is d to have been a drag on economic in the second quarter. Business kely rose by 0.4% in May, reversing fall in April. Factory shipments and ales rebounded in May.

INTERNATIONAL TRADE

Tuesday, July 18, 8:30 a.m. ▶ The foreign trade deficit likely narrowed a bit in May, falling to $10.2 billion from April's startling $11.4 billion, the biggest since the Commerce Dept. began tracking trade in both goods and services 3½ years ago. The MMS economists expect that exports, which fell 1.3% in April, rebounded in May, led by increased aircraft exports. At the same time, imports, up 1% in April, saw little change. Still, after adjusting for prices, the small improvement in the May trade deficit suggests that the net-exports sector of the real gross domestic product subtracted from second-quarter growth. That is after net exports stole almost one-percentage point from GDP growth in the first quarter.

HOUSING STARTS

Wednesday, July 19, 8:30 a.m. ▶ The MMS survey forecasts that housing starts increased to an annual rate of 1.29 million in June. That would be the highest level since February. In May, homebuilding dropped by 1.3%, with single-family starts slipping to a two-year low. The June rebound is suggested by the 19.9% jump in May sales of new single-family homes, which helped to clear out some of the supply of unsold units held by builders. However, homebuilding will probably have little upward momentum for the rest of 1995.

Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A

Access Research 76
ACX Technologies 6
Aeroméxico 50
Aeroperú 50
A.E. Staley 44
Airbus 30
Air Canada 50
Ajinomoto 44
American Express 68, 80
American Skandia 90
American Standard 47
America Online 19
AMEX Life Assurance 80
Amoco 84
Apple Computer 49
Archer Daniels Midland 44
Ariel Capital 44
Arthur D. Little 84
AST Research 43
Astrum International 6
AT&T 82
Atlantic Venture Group 6
Audits & Surveys Worldwide 72
Auto Pacific Group 60

B

BankAmerica 82
Bankers Trust 30, 77
Bank of America 42
Bank of Boston 44
Baxter International 86
Bell Atlantic 74
Benham Group 76
Berlin Wall Enterprises 6
Best Buys 68
Boca Research 43
Boeing 30
British Airways 50
Burger King 44

C

Canon 84
Capital Research 76
Cargill 44
Cathay Pacific Airways 48
Charles Schwab 68
Charter Communications 74
Charter House Group 74
Chrysler 18, 30, 60, 68, 98
City National 82
CNA 80
Coca-Cola 82
Coleman Associates 82
Comcast 74
Compaq 68
CompuCom 68, 72
CompuServe 19
Computer Intelligence InfoCorp 72
Conning 80
Consumers Union 80
Continental Airlines 50
Continental Cablevision 74
Coors 76
CPC International 44
Crosby Securities 30
Cushman Realty 78

D

Daimler Benz 30
Dain Bosworth 44
Daniels Associates 74
Dart Container 12
Datatech Software 88
Dell Computer
DirectTV 74
Dow Jones 77
DRI/McGraw-Hill 36
DuPont 98

E

Ehrenkrantz King Nussbaum 82
Ellis Communications 74
EMC 77
Enron 84
Ernst & Young 88
E-II Holdings 6

F

Falcon Cable 74
Fidelity Investments 76, 90
First Chicago 44
First Interstate 44, 82
First Interstate Bank of California 37
Ford 18, 60, 66, 98
Forrester Research 19
Forward Concepts 83
Franklin Resources 38
Fujitsu 49
Fuji Xerox 59
Furman Selz 42

G

Gabelli Funds 42
GE Capital 80
Gemini Consulting 44
Genentech 41
General Motors 8, 60
Gillette 82
GNA 80
Goldman Sachs 30, 74
Grand Metropolitan 44
Greiner 30
Grupo Financiero Serfín 50
Gulfstream 18

H

Hallmark 42
Harcourt Brace 18
Hayes Microcomputer Products 43
Heartland Lysine 44
Heidrick & Struggles 38
Herman Miller 44
Hewlett-Packard 19, 68, 77
Hicks Muse 74
Honda 60, 98
Hongkong & Shanghai Banking 48
Hughes Helicopter 78

I

IBM 36, 49, 68, 72
Integra Financial 44
Intel 77
International Data 68
International Strategic Advisors 30
Intuit 77

J

Jardine Fleming Holdings 48
J.C. Penney 44
J.D. Power 60
Jones Intercable 42, 74
J.P. Morgan 30, 74

K

Kelso 74
Kohlberg Kravis Roberts 44

L

Lotus 68
Lyonnaise des Eaux 44

M

Major League Baseball 8
McCrory 6
McGraw-Hill 95
McKenzie Leasing 82
McKinsey 68
Mercedes-Benz 98
Merck 44
Merrill Lynch 38, 68, 74
Mexicana 50
Microsoft 68, 77
Midlantic 44, 82
MMS International 95
Morgan Stanley 77, 78
Morningstar 90
Motorola 49
Moyer & Ross 12
Multimedia 74

N

NBC 37, 74
NBD Bancorp 44
NEC 49
Netmanage 19
Netscape Communications 19
NOLO Press/Folk Law 88

P

Paul Kagan 42
Performance Systems International 19
Pet 44
Philadelphia Phillies 8
Philip Morris 82
Photonics Imaging 6
Pillsbury 44
Plasmaco 6
PNC Bank 44, 82
Polygram 42
Practical Peripherals 43
Price Waterhouse 88
Prodigy Services 19
Prudential Securities 77
Putnam Investments 76
PV Energy Systems 84

Q

Qualcomm 19
Quarterdeck 19

R

Random House 8
Rent-Way 82
Robinson-Humphrey 43
Roche 41
Rockwell International 43
Royal Dutch/Shell

S

Salomon Brothers
Samsonite 6
Samuel Goldwyn 4
Scudder Stevens & Clark 76
Service Corp. International 44
Simon & Schuster
Sogite 44
Solar Design Associates 84
Solarex 84
Standard & Poor's 77
Strategic Insight 76
Strategies Unlimited 84
Syntex 41

T

Taesa 50
Tate & Lyle 44
Tektronix 19
Tele-Communications 7
Ticketmaster 44
Time Warner 74
Topps 8
Toshiba 72
Toyota 60, 66, 98
Trane 47
Travelers 80
T. Rowe Price 76
TRW-REDI Property Data 37
Turner Broadcasting 42
Twentieth Century 7

U

United Parcel Service 44
United Solar Systems 84
United Technologies 30
Upper Deck 8
U.S. Robotics 43

V

Vanguard 76
Voxware 83

W

Waller Capital 74
Wal-Mart 44
Walt Disney 42
Wells Fargo 82
Wiley 90
Woolworth 82

Z

Zoom Telephonics 4

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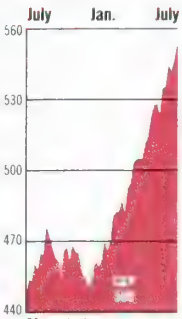
vestment Figures of the Week

NTARY

continue to stampede. The
s industrials logged 112
st week, with the average
a new high of 4727 on July
tors were celebrating the
eserve's quarter-point re-
n short-term interest rates
looking toward the next
eduction in U.S. rates bol-
eign markets as well.
ressed Japanese stocks
, and the ailing Mexican
mped 9.3%. On top of that
an peso strengthened,
he five-day return for U.S.
in the Bolsa to 12.2%.

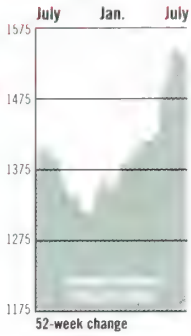
STOCKS



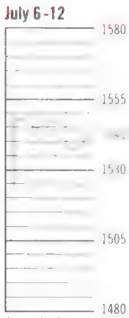
52-week change
+25.0%

1-week change
+2.5%

BONDS

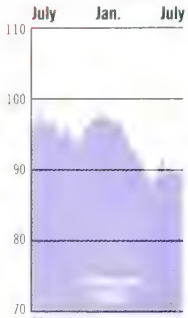


52-week change
+12.2%



1-week change
+0.7%

THE DOLLAR



52-week change
–5.9%

1-week change
+0.9%

KET ANALYSIS

OCKS	Latest	% change Week	% change 52-week
ES INDUSTRIALS	4727.3	2.4	27.6
COMPANIES (S&P MidCap Index)	205.2	3.3	21.6
MPANIES (Russell 2000)	293.8	3.2	20.6
ANIES (Russell 3000)	320.2	2.7	24.0

STOCKS	Latest	% change (local currency) Week	% change (local currency) 52-week
FINANCIAL TIMES 100)	3450.6	1.6	14.8
KKEI INDEX)	16,605.7	12.0	–19.2
(TSE COMPOSITE)	4710.3	3.4	13.8

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	5.53%	5.67%	4.50%
30-YEAR TREASURY BOND YIELD	6.55%	6.60%	7.67%
S&P 500 DIVIDEND YIELD	2.39%	2.44%	2.81%
S&P 500 PRICE/EARNINGS RATIO	17.2	16.9	19.9

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day moving average	490.1	487.7	Positive
Stocks above 200-day moving average	77.0%	73.0%	Negative
Speculative sentiment: Put/call ratio	0.62	0.67 r	Neutral
Insider sentiment: Vickers sell/buy ratio	1.51	1.42	Positive

BLOOMBERG FINANCIAL MARKETS

STRY GROUPS

NTH LEADERS	% change 1-month	% change 12-month	Strongest stock in group	% change 1-month	% change 12-month	Price
S	22.5	18.3	INCO	33.2	31.9	33 5/8
ING	18.4	–4.8	CONSOLIDATED FREIGHTWAYS	19.2	4.2	24 7/8
ONDUCTORS	17.9	94.7	INTEL	22.2	133.0	68 7/8
NUM	17.8	34.4	ALCOA	20.1	37.2	53 3/4
	16.3	–3.0	NUCOR	23.3	–13.3	60 1/8

NTH LAGGARDS	% change 1-month	% change 12-month	Weakest stock in group	% change 1-month	% change 12-month	Price
	–4.6	–11.3	U.S. HEALTHCARE	–7.7	–16.6	31 3/8
PLORATION AND PRODUCTION	–4.3	–6.8	ORYX ENERGY	–5.4	–11.8	13 1/8
ELL EQUIPMENT AND SERVICES	–2.6	0.5	McDERMOTT INTERNATIONAL	–9.1	–5.9	23 3/4
TAL MANAGEMENT	–1.6	6.7	TENET HEALTHCARE	–13.4	–12.1	14 1/2
STIC OIL	–0.8	5.0	SUN	–10.4	4.2	27 7/8

UAL FUNDS

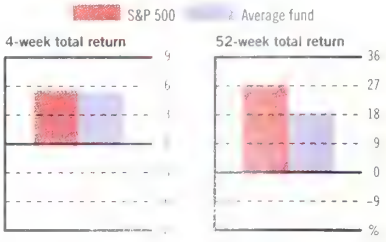
MORNINGSTAR INC

S

k total return	%
IT EQUIFUND-MEXICO	22.6
CAPITAL APPRECIATION	20.2
VE INFORMED INVESTORS GROWTH	20.2
total return	**%**
MAN COMMUNICATIONS & INFORM. A	110.6
NS OPPORTUNITY	87.8
ICE TECHNOLOGY A	87.6

LAGGARDS

Four-week total return	%
PIONEER INDIA B	–5.1
RYDEX URSA	–4.4
EV MARATHON GREATER INDIA	–4.2
52-week total return	**%**
AMERICAN HERITAGE	–31.8
STEADMAN OCEANOGRAPHIC TECHNOLOGY	–25.3
JAPAN	–24.9



TIVE PORTFOLIOS

DRI/McGRAW-HILL

nounts represent the
value of $10,000
one year ago
portfolio
ages indicate
total returns

U.S. stocks
$12,714
+1.41%

Treasury bonds
$12,365
+1.03%

Foreign stocks
$11,371
+3.98%

Money market fund
$10,529
+0.14%

Gold
$9,960
–0.03%

this page are as of market close Wednesday, July 12, 1995, unless otherwise indicat-
y groups include S&P 500 companies only; performance and share prices are as of mar-
ket close July 11. Mutual fund returns are as of July 7. Relative portfolios are valued as of July
11. A more detailed explanation of this page is available on request. r=revised NA=Not available

BRING COOLER HEADS TO THE CHINA TABLE

The U.S. calls it engagement. China calls it containment. And politicians in both countries want to call the whole thing off. Relations between the U.S. and China haven't been this bad since Tiananmen Square. Not only is a trade war looming (Beijing just chose Mercedes-Benz over Chrysler for a $1 billion minivan contract to show its pique at the U.S.) but an old-fashioned shooting war across the Taiwan Straits is a real possibility. All three parties—China, Taiwan, and the U.S.—have dangerously overplayed their diplomatic hands. It's time to stop and step back from the brink (page 30).

Miscommunications and naivete play important roles, but domestic politics and weak leadership are mostly responsible for the sad state of affairs. Jiang Zemin, desperate to consolidate his position as the heir to ailing Deng Xiaoping, is taking a nationalistic stance so strong it borders on xenophobia. Clinton is bending to the new strongly pro-Taiwanese GOP congressional majority. Taiwanese President Lee Teng-hui, running for office in 1996, is playing to the desire for international recognition commensurate with the country's economic power.

It all started with Lee's visit to Cornell University in June. What's wrong with the President of a market democracy with $100 billion in reserves visiting his alma mater? On the surface, nothing. But look how it was mishandled. First, while Lee was permitted into the U.S., Jiang was not welcome. Jiang has been trying to meet with President Clinton for more than a year, with no success. This has humiliated him just when he needs the meeting to buttress his own leadership position. Then, the White House did one of its famous flip-flops on foreign policy. After reassuring Beijing it would not allow Lee in, it simply changed its mind. Worse, the Administration didn't give China or even the U.S.'s own ambassadors in Asia any warning. House Speaker Newt Gingrich didn't help by cavalierly suggesting the U.S. just recognize Taiwan's independence.

To most Americans, China is overreacting wildly. Yet the cornerstone of U.S.-China relations, the one-China policy es lished under Richard Nixon, says that Taiwan is part of Ch It is one thing to negotiate with the U.S. over intellectual-p erty rights, the trade deficit, selling missiles to Pakistan, hu rights, or getting into the new World Trade Organization. Taiwanese independence threatens China deeply.

What is to be done? Taiwan is already backing down. V its stock market off 20%, Taipei is quickly lowering its inte tional political profile. The U.S. should take a step backwar well. Congress can start by dumping its romantic noti Taiwan is freer today than most Asian countries but the r tary ruled, as it did in Korea, for nearly 40 years. It t decades of growth to create a middle class that demanded mocracy. China is just starting down that road. The U given its own values, must reward Taiwan and press Ch hard to free Harry Wu and uphold basic human rights. President Clinton can help by inviting Jiang to meet v him in September when they both will be at the U.N. R firming the U.S.'s commitment to a one-China policy is crit

China, for its part, has the hardest job. Its current lead are neophytes on the post-cold-war geopolitical scene. Jiang his allies in the military and the party who run China hav learn the international rules of the game—the rule of l open markets, and respect for other countries. China often as if it were entitled to its huge trade surplus with the U the oil under the waters near the Philippines, or instant adm sion to the World Trade Organization. Blustering about, jai Wu, sending warships near Taiwan are all designed to exac bate a bad situation, not provide solutions. Giving big contra to European, rather than American companies, simply ero the one constituency China has left in the U.S.

Real interests divide the U.S. and China, but poor lead ship has made things much worse. This is a dangerous ti that calls for cool heads and cautious action.

FORD'S BIG TAURUS BET

The new Ford Taurus is a dazzling car, but can it be profitable at 100 yen to the dollar? Strange as the question sounds, it goes to the heart of the strategy Ford has used in designing its successor to the wildly successful original Taurus (page 60).

Here's the analysis. The Taurus competes with the Toyota Camry and Honda Accord. In recent years, it has had a price advantage of $2,000 per car because of the sky-high yen. In designing the new Taurus, Ford decided that American consumers liked Camrys and Hondas because of their great engineering and features. So it set out to match the Japanese. This, however, boosted costs. Meanwhile, the Japanese set out to "de-engineer" their cars, simplifying them to get costs out. The result? Detroit's price advantage is shrinking fast. A new Taurus with popular options will sell for about $1,000 l than comparable models from Honda and Toyota. But in l 1996, a new Camry comes out that Toyota promises will c 20% less to make. There goes the price advantage.

The dollar, weak for so long, may be poised to rise. If C gress does make progress toward a balanced budget and U.S. does trim the trade deficit, the dollar could go to 100, ting the value of the yen by about 15%. That might allow T ota to price the new Camry below the Taurus, unless it deci to pocket the cash as profit.

Bottom line, the new Taurus will succeed or fail on level playing fields of quality, design, and features. Fair enou But if Ford wants the Taurus to be a best-selling family car can't let prices drift much higher.

WHY THE SHARK IS A LAND ANIMAL.

Most people know Greg Norman as a golfer. Actually, there's much more to him than that. He's just as at home in the outback as he is on the back nine. So when he's not golfing, Greg takes his Chevy Suburban on hunting trips, on fishing expeditions, and anywhere else there might be an adventure. Suburban is unique. It's the one vehicle that combines elegance, power and unparalleled cargo capacity* with enough room to comfortably carry up to nine passengers.† It's this one-of-a-kind versatility that makes Greg's Suburban not only a reflection of his lifestyle, but a part of it.

CHEVY SUBURBAN
LIKE A ROCK

Jane Edwards
Branch Manager
Kelly Services

ECONOMY: NEW DATA WILL QUESTION ITS STRENGTH

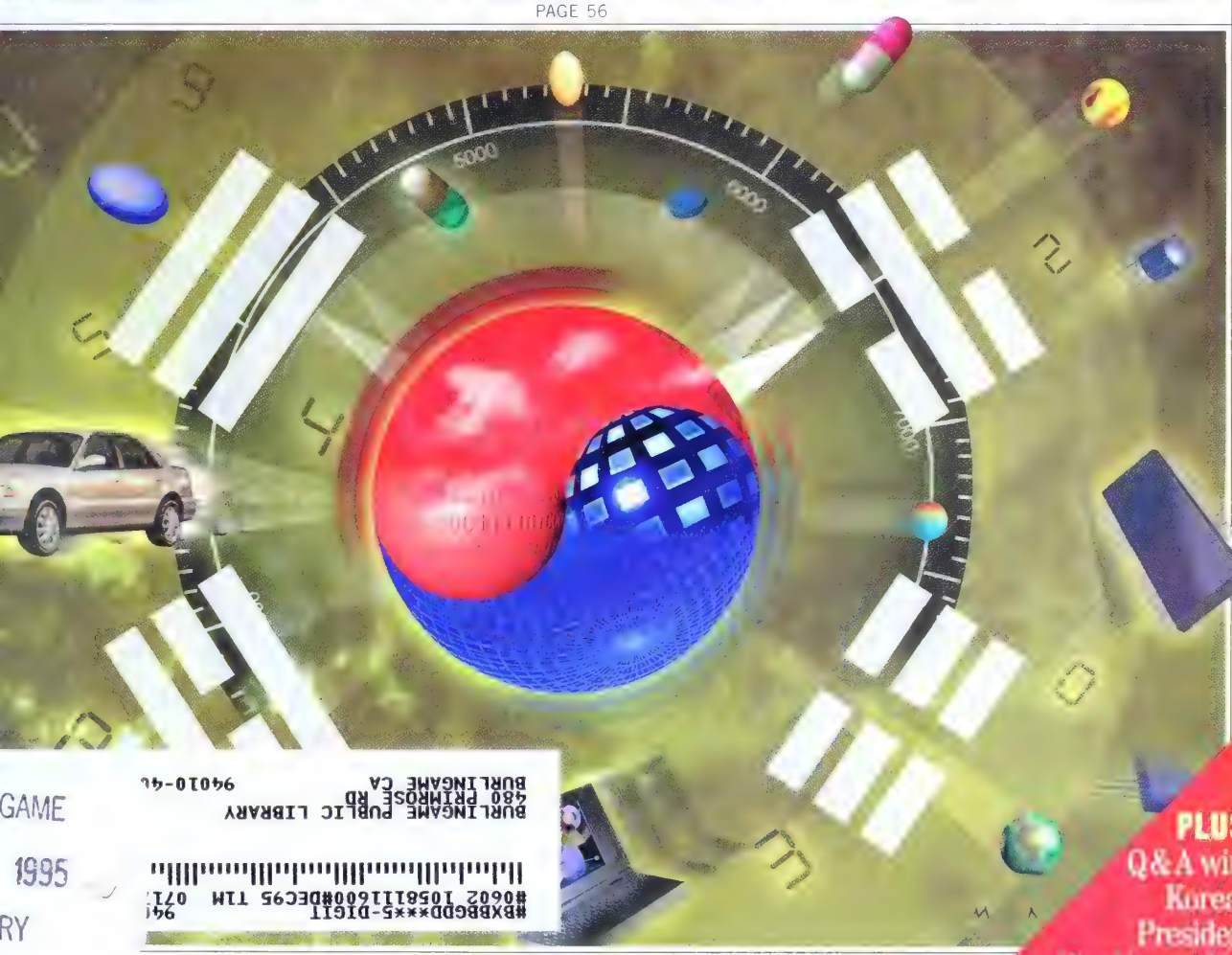
BusinessWeek

I, 1995 A PUBLICATION OF THE McGRAW-HILL COMPANIES 5

KOREA

EADED FOR HIGH TECH'S TOP TIER

PAGE 56



PLUS:
Q&A with Korean President Kim Young Sam

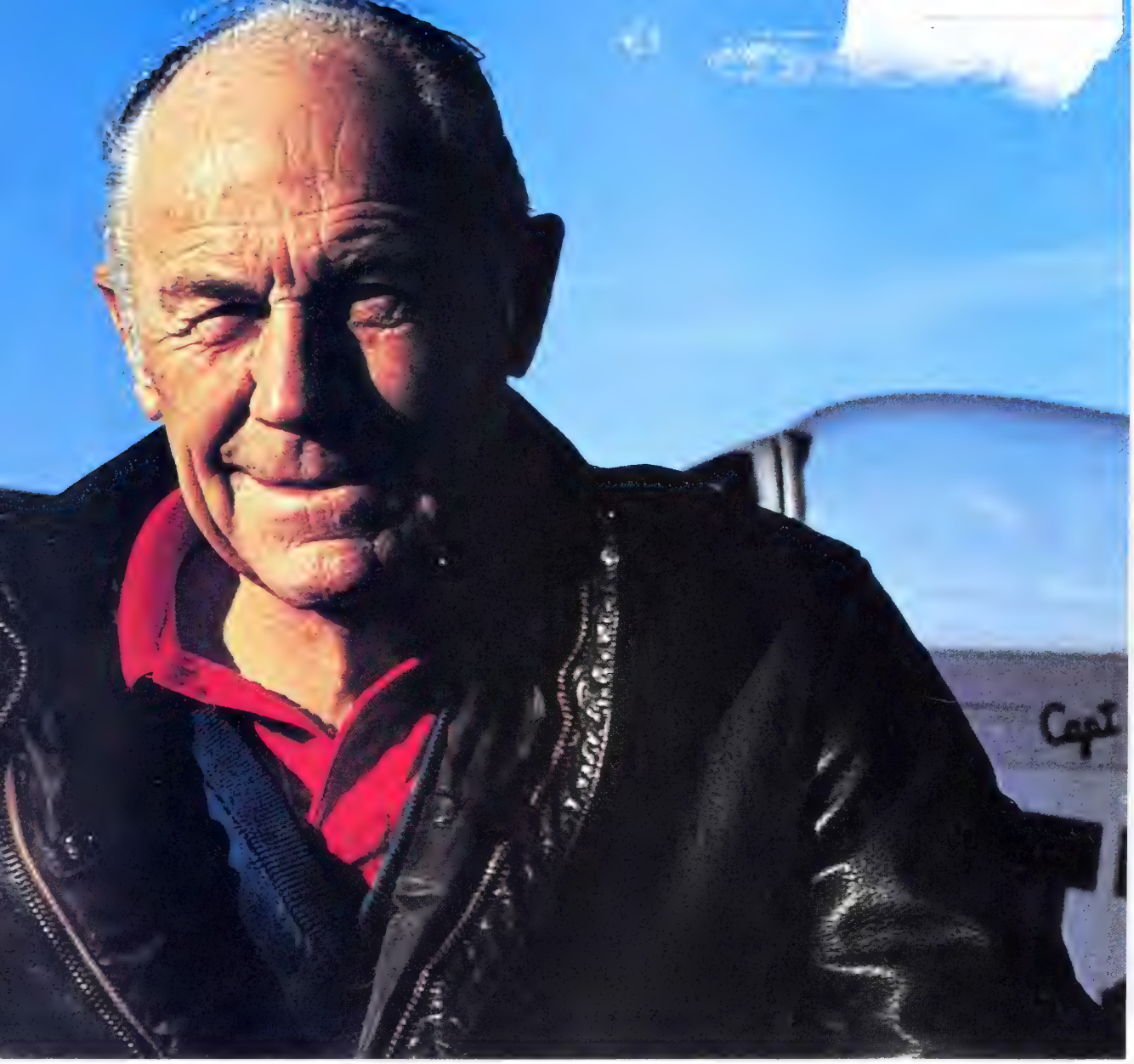
"A pilot has to believe in his equipment. That's why I wear a Rolex." *Chuck Yeager*

Throughout his remarkable career, Chuck Yeager has shown an uncanny talent for what pilots call "pushing the edge of the envelope."

At 21, only three years after first boarding a plane, Yeager was leading a squadron of fighter pilots in World War II. And at the age of 24, he became the first person to fly faster than the speed of sound.

Yeager remains a man on the move. "I don't jump off 15-foot fences anymore," says Yeager, "but I can still pull 8 or 9 G's in a high-performance aircraft."

In all his exploits, Yeager depends on a rugged and reliable timepiece. "I wore a Rolex more than 40 years ago when I broke the sound barrier and I still do today," says Yeager.



ROLEX

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Chances are, the ifferent opinions people n your company have about omputer systems are not caused by a eneration gap. They're caused by an nformation gap.

One group wants speed and ccess to information above all else. Another group recognizes the need or control and security as well.

Fortunately, a new-generation echnology can help you bridge his gap quite nicely.

It's called the S/390 Parallel Enterprise Server. With it, you'll be ble to run all the hot new UNIX nd client/server pplications that eep your busiess growing (from ompanies such as MC and PeopleSoft), as well as ll the mainframe applicaions that keep your busiess operating on solid round.

Of course, the new /390 Parallel Enterprise erver must work with ll of your other computer ystems in order to do this. The S/390® connects to all tandard networks, both ide area and local rea, so your options ill always be open o add new and diferent computers to our company.

Those who value security will be reassured to know that the S/390 Parallel Enterprise Server protects against unauthorized access to crucial information and can automatically back up critical business data stored on local area network servers or desktop systems.

Those who want access to information on a 24-hours-a-day, it-has-to-be-there basis will find they have exactly that. And no other server can provide more reliable access to information. The S/390 stays up and running even when changes are being made to your system.

THE S/390 PARALLEL ENTERPRISE SERVERS™ ARE THE ONLY CMOS-BASED SERVERS THAT CAN RUN UNIX, MVS AND CLIENT/SERVER APPLICATIONS.

Everyone in your company is going to want the speed that the new S/390 server brings. Its advanced parallel processing allows people in your company to get answers to questions that couldn't be asked before, at a cost that makes it all practical.

The S/390 Parallel Enterprise Server, in short, gives everybody what they're looking for. So come together and give us a call at 1 800 IBM-3333, ext. CA200, to learn more about the new S/390 Parallel Enterprise Server. Or, if you're on the Net, visit our Home Page at http://www.s390.ibm.com

BusinessWeek

JULY 31, 1995

Cover Story

56 KOREA
Hard-driving makers of autos, chips, and display screens. A labor force that is increasingly well educated. A per capita income that will cross $10,000 this year and may hit $20,000 early in the next century. South Korea may be the first nation to transform itself into an advanced industrial power since Japan—and it could soon be a troublesome rival to its Asian neighbor

64 A TALK WITH PRESIDENT KIM
"Now it is our turn to contribute"

News: Analysis & Commentary

34 WESTINGHOUSE-CBS: NICE DEAL?
Despite CBS's high price and low ratings, a merger might make sense for Westinghouse

36 FLASH PROFITS
Technology, paper, steel: The second quarter showed surprising spunk

36 TECH STOCKS: BLOODIED, BUT...
Fundamentals seem sound, despite the sharp drop in price

38 RETURN OF THE SHOPPER
Consumers are coming out of their shells—good news for retailers and the entire economy

39 DETROIT'S SMALL-SEDAN RUT
Why American import buyers keep turning a blind eye to new models from Ford and Chrysler

40 THE GOP: FUMING OVER ANTISMOKING
FDA Commissioner David Kessler's push to regulate Big Tobacco is sparking further charges of overregulation

41 AFFIRMATIVE ACTION'S NEW FOCUS
Clinton puts more emphasis on need and less on minority status, so some programs now may help white men

42 KEEPING KIWI ALOFT
The airline is flying on fumes, and new Chairman Russell Thayer has to find fresh investment money fast

44 ONWARD, CHRISTIAN PUBLISHERS
Sales of evangelical novels, children's fare, even business books, are hot

46 IN BUSINESS THIS WEEK
Times Mirror, Fedders, Boston Co., telecom reform, Technicolor, Apple, Readers Digest and Meredith

International Business

50 GERMANY
How Mercedes cut its minivan deal in China—and how big a price it may be paying for snagging the market

52 TAIWAN
The island nation is tasting Beijing's wrath, as the mainland blocks Taipei's economic efforts—and rattles sabers

53 INTERNATIONAL OUTLOOK
Palestine's peace dividend doesn't include prosperity

Economic Analysis

20 ECONOMIC VIEWPOINT
Dornbusch: Russia should bet the b on the ruble

30 ECONOMIC TRENDS
Japan's export drive, states' meager casino rake-offs, a long line for fast-jobs, the rich are in a spending moo

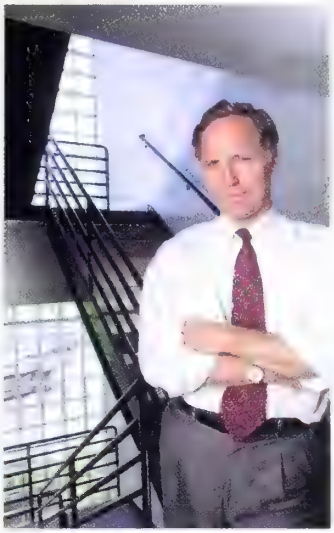
31 BUSINESS OUTLOOK
Demand makes a sturdy little comeb

74 BURSTING THE PRODUCTIVITY BUBBL
The government's new economic yardstick reveals a weaker expansio

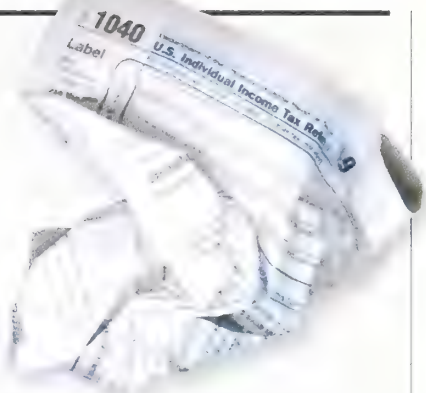
COVER STORY

colossus has made
ides in manufac-
nd is now the world's
to exporter page 56

RICA THE SLUGGISH?
overnment figures call into
the gains of the '90s page 74

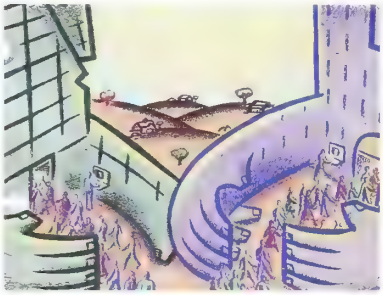


COMPAQ ATTACK
Can it sell network gear to its legions of PC customers? page 79



'DEATH TO THE IRS'
The GOP is tapping into public resentment page 84

MERCEDES' COUP
There's more to its deal than ill will between China and the U.S. page 50



BANK BEDFELLOWS
Technology is driving what may be a long wave of bank couplings page 66

MENTARY
productivity statistics aren't lying—
're missing the point

vernment

HINGTON OUTLOOK
the Administration's Beltway
inees are...doomed

GET: IRS
the GOP's tax-reform plans
d curb the power of the Internal
enue Service

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BANKS KEEP BULKING UP
y're merging in droves because of
capital heft it takes to reach
omers electronically

SPOTTED OWLS OF BANKING
k presidents are starting to look
an endangered species

SING THE FOREST FOR THE HEDGES
year, the smart money missed
e great opportunities

BULLS IN THE *BOLSA*
y may be overestimating the health
Iexico's still-troubled economy

70 **IT AIN'T ROCKET SCIENCE**
Money manager Lee Kopp has posted 44% returns with his tech picks

71 **INSIDE WALL STREET**
AirTouch may get an important call
These two just look humdrum
Bar-coding the world

97 **INVESTMENT FIGURES OF THE WEEK**

Information Processing

18 **TECHNOLOGY AND YOU**
It's time to replace your modem, even if it works just fine

79 **COMPAQ: FROM SOUP TO NETS**
The PC behemoth is taking aim at another huge hardware market: Networking equipment

80 **A TRILLION-BYTE WEAPON**
Powerful data warehouses provide marketers with information on how to woo—and hang on to—customers

The Corporation

83 **POLISHING THE CUBIC ZIRCONIA**
The Home Shopping Network has lost its luster, and classier packaging isn't pulling in upscale viewers

Science & Technology

87 **DEVELOPMENTS TO WATCH**
Data-sifting software goes commercial, birth control for mice, a new coolant

90 **CHANNEL-SURFING'S NEXT WAVE**
The VCR Plus inventor has an interactive TV guide—but he's up against the likes of Viacom and TCI

Personal Business

92 **INVESTING:** Bank-takeover plays
POTABLES: Suds for a summer thirst

Features

6 **UP FRONT**
12 **READERS REPORT**
13 **CORRECTIONS & CLARIFICATIONS**
14 **BOOKS**
Gingrich: *To Renew America*
Armey: *The Freedom Revolution*
15 **BUSINESS WEEK'S BESTSELLER LIST**
95 **BUSINESS WEEK INDEX**
96 **INDEX TO COMPANIES**
98 **EDITORIALS**
Why Korea must open the door
The productivity boom is no mirage

Up Front

EDITED BY LARRY LIGHT, WITH OLUWABUNMI SHABI

WHEELER-DEALERS

DONALD DUCKS ANOTHER BULLET

DONALD TRUMP HAS SCORED another one. The New York-based developer and casino operator had $115 million in personal bank debt come due on June 30. BUSINESS WEEK has learned, though, that the banks have granted him three extra years to pay.

Say what you want, Trump is a master at giving himself breathing room. His 1990 financial meltdown savaged his personal fortune, yet he avoided bankruptcy. And now, the banks extended his personal debt maturity for fear he could not repay the entire sum, sources say. Trump insists he could have sold assets to settle the tab, which he claims is really $68 million. And indeed, he recently raised $280 million in a stock-and-debt offering on one of his three Atlantic City casinos, the Trump Plaza. He's using that to expand the casino and start a riverboat gaming parlor in Gary, Ind.

TRUMP: *Extended*

Whether he could have raised $115 million by selling other properties, some heavily debt-encumbered, is an open question. The Trump Plaza deal sliced some $20 million off his personal debt—but covenants required him to redeem at least $49 million in Plaza bonds. Trump depicts the debt extension as routine. He says, "I'm in better shape than in the 1980s."

Although lenders took over some of his prime assets in the early 1990s, they bet that he could stage a comeback with the rest. It's too early to tell. But he has struck a potentially lucrative deal with Hong Kong interests to build a massive residential complex on Manhattan's West Side. □

THE LIST DOWNSIZED, BUT NOT OUT

While Corporate America is leaner nowadays, it's no ghost town. General Motors has shed more than 100,000 employees since the 1980s, but it's still America's most populous company. Yet not all major employers are downsizing. Wal-Mart, PepsiCo, and United Parcel Service are among those staffing up. Wal-Mart alone hired 94,000 workers just last year as it expanded its stores.

WHAT, ME WORRY?

TOP U.S. PRIVATE EMPLOYERS

		EMPLOYEES*
1	GENERAL MOTORS	692,800
2	WAL-MART	622,000
3	PEPSICO	471,000
4	KMART	332,000
5	FORD	322,213
6	SEARS	322,162
7	UPS	315,000
8	AT&T	304,500
9	GENERAL ELECTRIC	221,000
10	IBM	219,838

* As of fiscal yearend, 1994

DATA: *HOOVER'S MASTERLIST OF TOP 2,500 EMPLOYERS*, COMPANY REPORTS

TALK SHOW "I'm a much better worker than I am a golfer."

—Scott Paper CEO Albert Dunlap, who came out of retirement last year to turn around the company. Kimberly-Clark announced on July 17 that it's buying Scott.

COOK: *On-lining up banking partners*

MISMATCHES

WHAT DID SCOTT TELL BILL?

DID HE OR DIDN'T HE SPILL his guts? Intuit Chairman Scott Cook insists he didn't share sensitive information with giant Microsoft when the two companies were trying to merge earlier this year. Good thing. Because when the union got called off in May, Microsoft's Bill Gates once again became an arch-rival in PC-based financial planning, electronic bill paying, and home banking.

But wait a minute. A prospectus filed by Intuit in June says: "In connection with the proposed merger [Intuit] shared business information with Microsoft . . . and there can be no assurance that Microsoft will not use the information made available to it to compete with the company." Intuit's Chief Financial Officer Bill Lane calls the wording "inadvertent, in retrospect."

Things should look sweet for Cook. Intuit announced on July 14 that it had amassed an impressive roster of 19 online banking partners—including American Express and Smith Barney. Microsoft, though, is lining up its own bank partners and is now putting the finishing touches on an improved version of its personal-finance program. *Amy Cortese*

PEROT NOTES

AT LONG LAST, HIS SYSTEMS ARE GO

ROSS PEROT'S TROUBLED NEW company appears to be turning around. His seven-year-old Perot Systems—it runs computer operations for corporations, a business known as outsourcing—won some big deals early on. But it got trounced by giants such as IBM, Andersen Consulting, and Electronic Data Systems, which he founded. Dallas-based Perot Systems was taking such a beating that its future was in doubt in 1993 and 1994's first half. It won virtually no new business.

Then, the privately held company staged a comeback by focusing less on outsourcing and more on customized computer systems for Corporate America. It's now snagging deals again—more than 50 in 1995 alone—including a seven-year, $100 million contract with Tenet Healthcare in Santa Monica, Calif., that is announced on July 18. This year, profits could hit $20 million on a 12% rise in revenues, to $330 million, say analysts.

ROSS: *Tick*

Perot, who owns 20% of the company, should thank his longtime buddy Morton Meyerson, who took over as chairman in 1992. Meyerson is considering a possible public stock offering in 1996. That could bring a nice return for billionaire Perot. Maybe just enough spare change to finance another White House bid. *Mark Lewyn*

Up Front

9 TO 5: *A job stuck in time*

DIVERSITY

WHERE THE BOYS (STILL) AREN'T

IN A SUPPOSEDLY GENDER-blind age, why do male secretaries remain a rarity? Rampant discrimination, say numerous guy Fridays and employment experts. The number of male secretaries has barely risen over a decade—so the secretarial pool still resembles the one in the 1980 movie *9 to 5*. Ten years ago, when the Labor Dept. broke out the secretarial ranks by sex, there were 37,000 males out of 3.8 million total. The most recent stats: 39,000 out of 3.4 million.

Some bosses' preferences are clear. "'Bob Something' is sent to an office, and they say they don't want a man," says Karen Tulik of Snelling Temporary Services in Kalamazoo, Mich. Reason: Most managers are male; they want female help.

Still, few complaints are filed. "You have to catch them red-handed," says Donn Mitchell, a onetime temp at SmithKline Beecham. He won an undisclosed settlement against the company, which passed him over for a full-time job. SmithKline hasn't admitted to his bias charges. When Mitchell does get work, it's often with female execs—though some in that growing group prefer women helpers, too. *Cindy Webb*

MORALE SQUAD

SURVEY SHOWS: TOO MANY SURVEYS

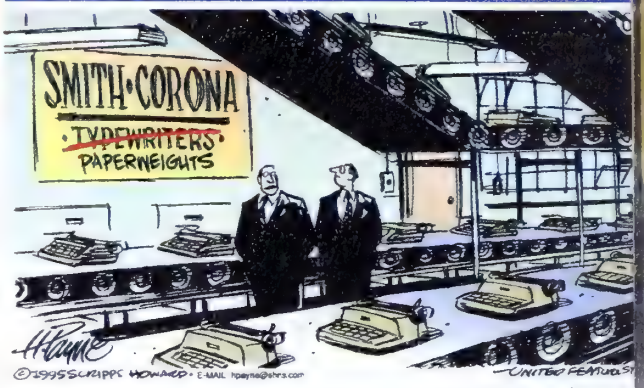
CORPORATE AMERICA HITS its hapless employees with a lot of surveys these days. How do they feel about the company? Co-workers? Bosses? Surveys are rife when a company is downsizing, as it tries to gauge how survivors will function in the scorched-earth aftermath.

Trouble is, companies often don't want to face negative feedback. And that leaves employees distrustful of management and its surveys. This conclusion comes from—what else?—a survey. John Stanek, chief of Chicago's International Survey Research, did a study of 125,000 people at 55 companies. Findings: At companies in financial trouble, only 20% said those other surveys had done any good; at successful companies, it was 38%.

The problem is compounded, he says, when companies take too many surveys, which he defines as more than one a year. Even employers that do want to act on survey results don't have th time before a new survey launched.

But the biggest obstac to surveys' producing wor place changes, say the e perts, remains the head-i sand boss. A client Deborah Cornwall, a mana ing director at the Kor Ferry consulting firm, r fused to believe the surve results that slammed h managerial prowess. Say Cornwall: "He said that obv ously the computer made mistake." *Cindy Wel*

DRAWN & QUARTERED



"IT'S PART OF OUR REORGANIZATION PLAN..."

WORKPLACE WOES

OFFICE WORKERS' BARKING DOG SYNDROME

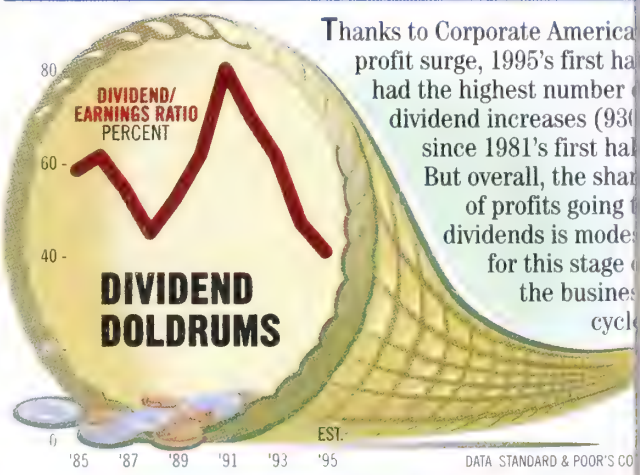
THE CURE? *Sole therapy*

MOVE OVER, carpal tunnel syndrome. Here come two more office-related ailments: foot swelling and back pain. Bulging feet mean there's less circulation to the brain—hence sluggish and inattentive employees. Back pain is the second cause of lost workdays, behind the common cold.

A new study says people who sit all day have twice the incidence of swelling feet as those who don't. Blood tends to collect in non-active feet. Poor circulation also is a factor in chairbound workers' back problems, along with bad posture during those prolonged sits.

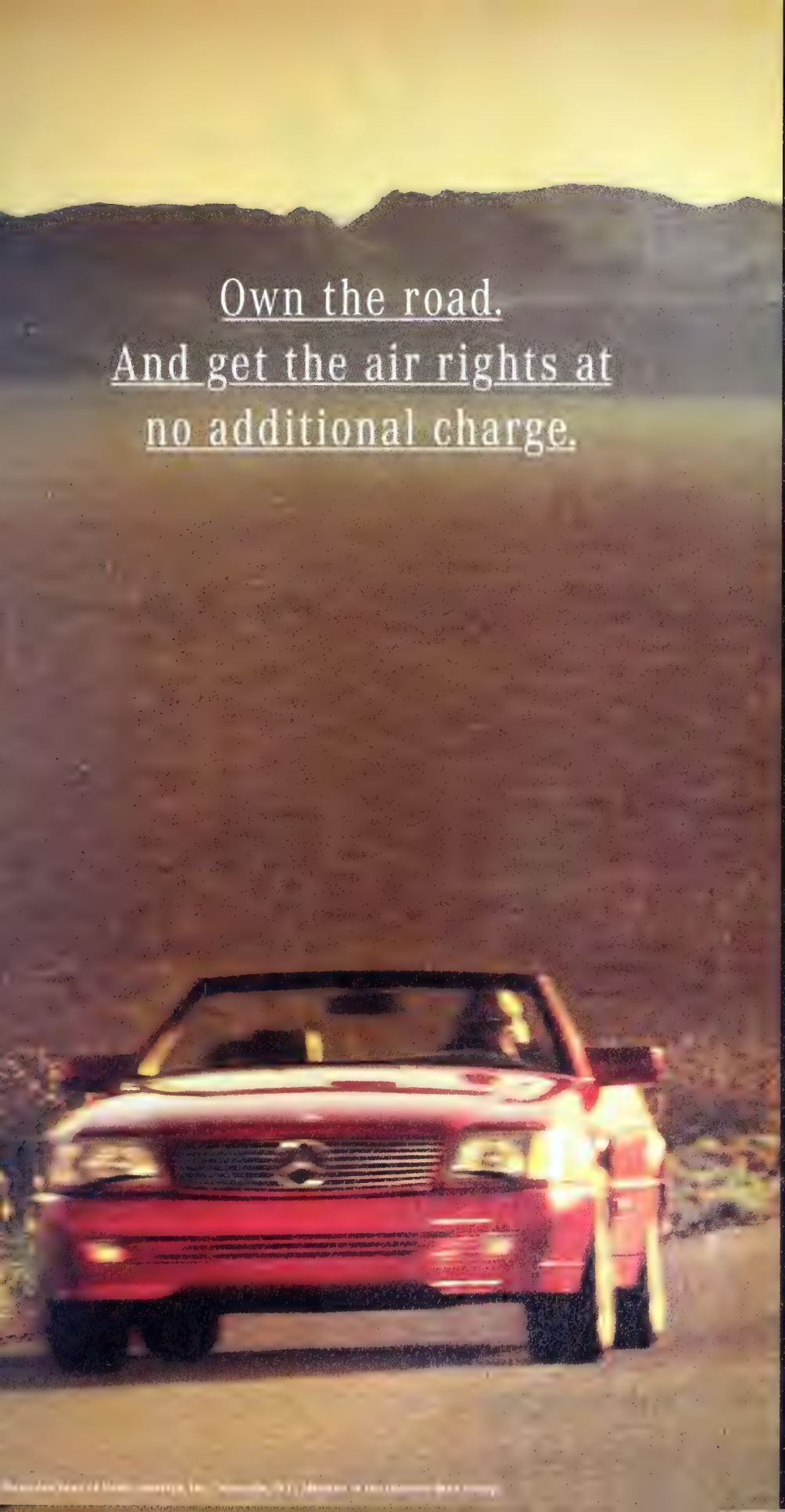
These injuries aren't new. But this is the first time they have been measured and identified. And since some 70% of the U.S. workforce now toils in an office, the number of afflicted is probably larger than ever. Th study was done by office-fu niture supplier Haworth, wi the help of Western Michiga University and the Stat University of New York Buffalo, observing Hawort employees for a year. The s lution to these ills is prett simple, though: Get up an move around.

THE BIG PICTURE



Thanks to Corporate America profit surge, 1995's first ha had the highest number dividend increases (93 since 1981's first ha But overall, the shar of profits going dividends is mode for this stage the busine cycl

FOOTNOTES Corporations recommending or requiring executives to own company stock: 1995, 22.6%; 1994, 15.4%; 1993, 6.9%



The Mercedes-Benz SL-Class. For more information, call 1-800-FOR-MERCEDES.

Mercedes-Benz

Introducing the new Compaq ProLinea

The original premise was simple: make a powerful, yet affordable, computer that doesn't come with all the headaches normally associated with the word "value." And in creating the latest Compaq ProLinea®, we built on that premise—by taking the original apart.

We examined it from top to bottom, from the inside out, looking for ways to improve it. Looking to see what new technologies we could add.

THE LATEST PROLINEA HAS AN IMPRESSIVE SAVE FEATURE: IT'LL SAVE YOU MONEY, SAVE YOU TIME, AND SAVE YOUR SANITY.

In the end, we came up with more than a few improvements. Making ProLinea even harder to distinguish from more expensive machines. The fastest processors. Easy upgradability. Simplified maintenance. Features that make it easy to live with on the day you install it, and for years to come.

It all raises ProLinea to a completely new level. (Of course you'll still find the price within reach.)

And that should certainly put your mind at ease.

COMPAQ

Readers Report

A LITTLE FRESH AIR ON WINDOWS 95

There must be some substantial improvements in Win95, but I wasn't able to discern them from your article ("Windows 95," Cover Story, July 10). Instead, your coverage focused on the expected benefits of Win95 for Microsoft and other technology companies. What about the typical consumer, who supposedly is anxious to run out and buy this thing? Launching programs, managing files, and double-clicking the mouse is really not too difficult with Windows 3.1. Most of the Win95 features you describe sound nice, but are they really worth hundreds of dollars of upgrades in software and hardware—especially considering the probability of bugs in early release?

Mark Fleming
Seattle

The "Gee Whiz! Check out this new feature!" tone of your story was amusing. Every single feature the article describes has been available from Apple Computer for over a decade. I've been plugging-and-playing, double-clicking, uncluttering the desktop, and finding files in the blink of an eye for almost eight years now with the Macintosh System 7 operating system, and I see nothing even slightly revolutionary about Microsoft's new brainchild.

Christian Chabot
Brighton, England

A photo caption caught my attention. It called making the switch to Windows 95 a "no brainer." If Microsoft has this attitude, I fear it might be in for a rude awakening. I, for one, will most likely not switch to 95. I have a 486-50 with 8 megabytes of memory and am unwilling to spend several hundred dollars to take advantage of 95.

What exactly are the advantages? We hear about plug-and-play, but I already have a modem, CD-ROM, etc. What will I add that I need plug-and-pla for? We hear about ease of use, but ne ther I nor my 6-year-old has any troub with Windows 3.11.

Microsoft has a large marketing jo to do on me—and I am sure many otl ers—before we will switch to Window 95. From all I have read, I am certai that for me, a PhD student, the margi al costs of switching far exceed the ma ginal benefits.

Kevin McNel
University of Tex
Arlington, Te

When I saw the cover of your last i sue, I expected just another artic where Windows 95 would be portraye as a revolutionary product with feature never seen before. Instead, I was plea antly surprised by its objectivity. showed that Windows 95's "innovation have already appeared in products fro Apple Computer and IBM and that it not necessarily the best operating sy tem available. Finally, a publication n brainwashed by Microsoft!

Vijay Iye
Baldwin, N.

BUSINESS WEEK did a good job of ba ancing the noise, hopes, and grousin surrounding Win95's August rollout. B will large and small corporations imm diately convert? After a lot of bugfixe and patches, Win3.1 is relatively sol WinNT is very sound.

Companies aren't going to add roug ly $750 to $1,000 to the cost of 386 an 486 systems that are good for at lea one or more years of work (word pr

TOUGH CUSTOMER

"Microsoft has a large marketing job to do on me–and I am sure many others–before we will switch to Windows 95"

Business Week
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ng, accounting, logistics, etc.). They ably won't buy new systems for yone in the organization simply to nultitasking capabilities (most peo- an only do one thing well at a time ay), or Internet access (Internet ection is already growing at 18% nonth).

ll chief information officers and financial officers feel it imperative nvert to a new operating system rewrite all of the software they on because Win95 is new?

and-new computer users will have roblem deciding between Win3.1 Win95 because they have no prior tment to consider. However, people upgrade their systems will have aluate hardware, software, and op- onal impact costs.

Andy Marken
President
Marken Communications Inc.
Santa Clara, Calif.

t's see if I've got this: In order to Windows 95, all these folks who ht PC-compatibles because they less than Macintoshes are going ve to add a lot more RAM and big- ard disks to run an operating sys- that still won't give them the ease eration that a Mac does. Who was t said there's a sucker born every te?

advice for people who want an to-use, easy-to-network, plug-and- computer is the same today as it 10 years ago: Buy a Mac.

Michael Stoner
Princeton, N.J.

UAL REALITY'S 'S AND BOUNDS

ich of the data used in your article sick in cyberspace" (Science & nology, July 10) is dated, most sig- ntly your account of a prototype set developed by Sega more than years ago. I believe your readers d have been better served if you ed on current VR products on the et and in development. VR tech- y has come a long way in the past years, and it should be recognized what it is today, not what it was erday.

Linden Rhoads
President, Virtual i-O
Seattle

ANCE THE BUDGET? T BUDGET?

r inability to account for all contin- ies is no reason to give up hope of ncing the federal budget, as dis- ed in "You can't balance tomorrow's budget today" (News: Analysis & Commentary, July 10).

It would be instructive, though, for the budget to be better defined. There are a number of factors that seriously cloud the budget-balance issue. One factor is the distinction between "on" and "off" budget items. Another, the treatment of legislated appropriations for longer-term capital projects vs. actual expenditures in a given year. A third is the impact of inflation (even at low rates) on reducing the real value of the national debt, which may partially offset a current deficit. A fourth is accounting for changes in the value of government assets.

Uncertainties will always vex us, but it is crucial to define what budget it is that we are aiming to balance and to discuss if that is the relevant budget concept.

David Hammes
Associate Professor of Economics
University of Hawaii
Hilo, Hawaii

CORRECTIONS & CLARIFICATIONS

The Table of Contents description of the July 24 Cover Story on the Ford Taurus should have said that Taurus accounted for nearly 10% of Ford's North American revenues, not 20%.

In "Seasick in cyberspace" (Science & Technology, July 10), the name of the president of Virtual i-O, Linden Rhoads, was misspelled.

"Easing your way onto the Net" (Technology & You, July 24) should have said that the monthly charge for using InterRAMP's service is $9.95.

The correct location of the Asian Business Connection mentioned in "Dialing for *dinero*" (Marketing, July 10) is El Monte, Calif.

WORK RULES: THE CURE MAY BE WORSE THAN THE DISEASE

Robert Kuttner's proposals ("Needed: A two-way social contract in the workplace," Economic Viewpoint, July 10) are what helped cause our problems in the first place. Because of legislative edicts, legal precedents, union work rules, and governmental social engineering, employees have become an expensive liability.

The opening of trade barriers and the blurring of national borders will have a balancing effect as a true global economy unfolds. The American worker will be forced to compete for work with an equally skilled "global" worker who has, in the majority of cases, been paid substantially less while producing a similar product. An equilibrium will be reached by higher wages being reduced and lower wages being raised. Unfortunately for the American worker, our wages are the artificially high ones in a global workforce.

What Kuttner proposes will serve only to exacerbate the problem. Additional work rules will quickly force the surviving employers to relocate their businesses outside of the U.S. and away from artificially high wages and benefits.

The reality is that employees need to look at the services they perform as if they were independent contractors competing in a global market. This will be a sobering experience for most of us. To maintain some semblance of the lifestyle that we've grown accustomed to, American workers need to continue improving their skills, pay off their debts as quickly as possible, and get ready for the resultant high probability of deflation.

James B. Harkrider Jr.
Houston

A BARGAIN—COMPARED WITH FIGHTING A WAR

Providing tax incentives to encourage the American oil industry ("The budget: How to whack $10 billion," News: Analysis & Commentary, July 3) is far cheaper than spending American lives and dollars in a Persian Gulf War so that we can continue to run high trade deficits by filling Arab sheiks' coffers with American dollars to purchase their oil for import.

Vincent Matthews III
President
Penn Virginia Oil & Gas Corp.
Kingsport, Tenn.

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TO RENEW AMERICA
By Newt Gingrich
HarperCollins • 260pp • $24

THE FREEDOM REVOLUTION
By Dick Armey
Regnery • 318pp • $24.95

INSTANT MANIFESTOS FROM NEWT AND DICK

House Speaker Newt Gingrich and House Majority Leader Dick Armey have much in common. Both are former professors at state schools in the South who became conservative political revolutionaries. The 1994 Republican landslide propelled them to power on Capitol Hill. And now, both have written books to spread the gospel of free-market capitalism and social conservatism.

Despite their ideological similarities, Gingrich, a former history professor at West Georgia College, and Armey, a North Texas State University economist, have starkly different personalities. Info Age philosopher Gingrich fancies himself as the CEO of the GOP revolution, while the well-organized Armey acts as its chief operating officer. Armey cultivates bipartisan friendships, though his withering wit sometimes gets him into trouble. Gingrich is relentlessly partisan and incessantly serious. These divergent personalities are readily apparent in their books.

Newt Gingrich

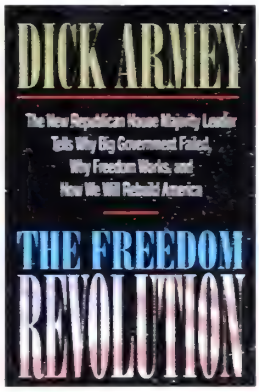
To Renew America

Neither of the quickly produced works is destined to become a classic. Both lack scholarly polish, and both contain sloppy mistakes. (Gingrich misspells the name of NASA Administrator Daniel S. Goldin and calls muckraking journalist Brooks Jackson "Jackson Brooks," while Armey confuses McCaw Cellular Communications Inc. with the McGraw-Hill Cos.)

Gingrich's *To Renew America* too often seems to be the random thoughts of Speaker Newt. Many of its ideas have been lifted from speeches, and there is no unifying theme. A chapter on crime is followed by a spirited defense of Rush Limbaugh, which is followed by a discussion of taxes.

Like Gingrich the politician, the book is uncompromising, humorless, and often rambling. But like Gingrich the thinker, it is also provocative, imaginative, and sometimes brilliant. His proposals to streamline defense procurement and to modernize health-care delivery are compelling. But Gingrich's self-righteousness can, at times, alienate even a sympathetic reader. Take his unbending conclusion after he outlines eight innovative solutions to the nation's welfare dilemma: "If we are truly serious about helping the poor," he writes, "we must undertake all eight reforms simultaneously." It's Newt's way or no way.

Armey's *The Freedom Revolution* is better-focused. Citing his economics background and quoting his own folksy axioms ("The market is rational and the government is dumb"), the Texas lawmaker fingers New Deal and Great Society programs as the greatest threats to America's freedom. To cure problems as diverse as poverty, education, health care, and trade, he suggests unfettered capitalism—and his 17% flat-tax plan, to which he devotes a thought-provoking chapter. Occasionally, harsh Armey doctrine is jolting: He compares New Deal architects to Stalinist state planners, and he dismisses Watergate as "one incident of breaking and entering and one lie."



But those intense moments are broken up by wonderful bits of offbeat humor. The best: Armey's sarcastic account of a Democratic hearing at which Jane Fonda, Jessica Lange, and Sissy Spacek pleaded for federal assistance to family farmers. The actresses, he wrote, were "on hand to share the knowledge they'd recently acquired playing farm women in movies.... Jane's expert testimony carried particular weight because she was a second-generation Hollywood farm girl, her father having starred in *The Grapes of Wrath*."

Gingrich and Armey agree on most issues, although Armey views the nation's problems through an economic lens and Gingrich is more concerned about the social roots of our ills. That distinction may explain their deepest area of disagreement: immigration. Gingrich focuses on curbing illegal immigration and even suggests introducing a national identity card with an embedde hologram. Armey dismisses such a ca as a Big Brother scheme to gather i formation on law-abiding Americans "a giant government computer bank And he delivers an impassioned defens of immigration, arguing that newcor ers don't take jobs from the native-bo and contribute far more in taxes tha they receive in government benefits.

While Gingrich directs all of his fi at Democrats, Armey is particularly bi ter about what he sees as the economi policy treason of former Preside George Bush and his budget directo Richard G. Darman. He derides th Bush Presidency as a backslide fro the heady days of Ronald Reagan. He still furious about the 1990 budg deal—in which Bush agreed to rais taxes as part of a deficit-reduction pla Still, he sees a silver lining to the 199 cloud: It accelerated the antitax revol tion that culminated four years later the GOP takeover of Congress.

It's just that kind of conclusion th makes Armey's overall tone far mo upbeat than Gingrich's. In Armey view, the enviro mentalists, the ant nuke activists, a the population-bom Cassandras hav been exaggeratin our world's pro lems—which can fixed if we follo the teachings classical economi Adam Smith. Gi grich warns dark of a decline and fa of American civiliz tion if recent trends are not reversed a hurry. His stark conclusion: "To rene or to decay. At no time in the history our nation has the choice been cleare

Gingrich's book has been the subje of controversy ever since he accept (and then returned) a $4.5 million a vance from a publishing house affiliate with media mogul Rupert Murdoc Still, Gingrich could make millions fro royalties if the book remains a bes seller. Thanks to HarperCollins' ab publicity machine and Gingrich's geni as a self-promoter, that's likely. Arme on the other hand, stands to gain littl He took no advance and is donating a proceeds to charities, such as the Speci Olympics. And if you are seeking h political rhetoric for a summertime c version, his is the better book.

BY RICK DUNHA

Dunham covers Capitol Hill f
BUSINESS WEEK

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CERFnet's unique turnkey service takes all the work out of connecting your business to the Internet. We customize your Internet access according to your needs, help you select the most cost-effective connection, install the appropriate software and hardware, monitor and repair the system, and provide superior customer service around the clock. And, we offer training classes. CERFnet's switched access services use 14.4 and 28.8 Kbps digital modems and ISDN. Dedicated line services range from 56 Kbps to 45 Mbps using advanced technologies such as Frame Relay, SMDS, and ATM. For organizations who want to provide their target audience with rapid information delivery, CERFnet provides Web Server hosting services.

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HOT TYPE IN CITY AFTER CITY ACROSS AMERICA, established department stores have ed with fear: When Nordstrom's comes to town, standards ervice have to go up. "Oh, my God," competitors think, we gotta smile at customers and write silly thank-you s, or they'll walk across the mall to Nordies."

ut the secrets of Nordstrom Inc.'s success go much deep- s *Women's Wear Daily* reporter Robert Spector and Nord- n menswear salesman Patrick D. McCarthy explain in *The lstrom Way: The Inside Story of America's #1 Service pany* (Wiley, $24.95)—No. 4 on this month's best-seller list. Despite the unassuming "we're just shoe guys" attitude of the family members at the top, Nordstrom sparks performance by paying salespeople high commissions, giving them decision-making power, and pushing them to act like entrepreneurs. The resulting environment is too Darwinian for some—a 1990 labor battle brought to the surface a number of employee complaints, to which the Nordstroms respond here.

Don't look to *The Nordstrom Way* for a balanced account of the company's successes and failures. But for anyone looking to understand customer service at its best, this book bubbles with insights.

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WHERE DO YOU WANT TO GO TODAY?™

BY STEPHEN H. WILDSTROM

THOROUGHLY MODERN MODEMS

The time has come to replace your modem. True, it may be only a year old and work just fine. But it almost certainly has a top speed of 14.4 kilobits per second (KBPS). The good news is that you can double that speed for around $200. And prices are still plunging.

It has been less than a year since an international standard for communications at 28.8 KBPS known as V.34 was adopted, but already the faster modems have really taken off. Graphics-rich screens on the Internet's World Wide Web and online services seem to take forever to display at speeds less than 14.4, spurring demand for faster transmission. Service providers, scrambling to upgrade networks to handle 28.8, are also trumpeting discounts: Prodigy members, for instance, can order a 28.8 online for just $129.99.

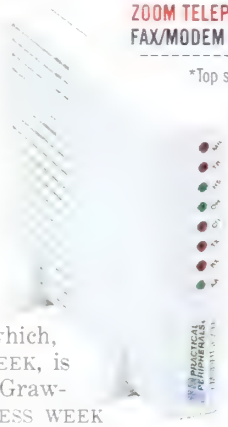
You'll find plenty of selection. Nearly all of two dozen V.34 fax-and-data modems performed well in tests by National Software Testing Laboratories (NSTL), which, like BUSINESS WEEK, is part of the McGraw-Hill Cos. (BUSINESS WEEK Online on America Online has an extensive list with specific results.) While pricier units may provide extra features or superior performance over bad phone lines, someone who just wants a modem to hook up with CompuServe Inc. or the Internet isn't apt to notice much difference. That's hardly surprising: Most modems have as their guts the same set of chips from Rockwell International Corp.

So how do you choose? For starters, I strongly prefer external units that plug into a serial port, rather than internal cards that plug into a slot on your personal computer. (All Macintosh modems are external.) Internals are about $20 cheaper but require opening the computer for installation. Also, they lack those little lights that can be helpful in diagnosing problems.

Some Top Reasonably Priced Models

MODEM	NSTL SCORE*	PRICE
PRACTICAL PERIPHERALS PM288MT II V.34 *(below)*	9.0	$209
U.S. ROBOTICS SPORTSTER 28.8 V.34	8.8	235
MOTOROLA POWER 28.8 *(above)*	8.6	239
ZOOM TELEPHONICS FAX/MODEM V.34X	8.6	189

*Top score is 10 DATA: NSTL, BUSINESS WEEK



I would stick to name brands. The commands needed to get the best performance differ from modem to modem, so you'll be happier if your software has built-in support for your model. The configuration section of your Windows communications programs will list supported modems. Older software may not list any V.34 modems, but you can usually download an updated file from the manufacturer's bulletin board.

LONG LIFE. Beyond that, it probably doesn't make too much difference what you choose. I have been using three relatively inexpensive V.34 modems from Practical Peripherals, Motorola, and Zoom Telephonics. The most expensive of the trio, at $239, the Motorola Power Series 28.8, has some extra features, including the ability to pass Caller-ID information to your computer and to upgrade its internal software. But basic performance of the trio has been comparable. For Macs, I've been impressed by the performance of Global Village Communication Inc.'s $239 TelePort Platinum, which comes with performance-enhancing software.

Will your new V.34 modem become obsolete as quickly as your 14.4 modem did? Unlikely, since 28.8 pushes the current standard phone system to the limit. No faster modems for standard dial-up lines are currently under development.

The next generation of communications devices will either use the Integrated Services Digital Network (ISDN) or operate over cable-TV circuits. So-called cable modems remain mostly in the laboratory. While ISDN service has become more widely available and although the price of ISDN terminal adapters has dropped to as little as $300, ISDN support from online services and software publishers has come along much more slowly than I had expected (BW—Feb. 27). So, for now, 28.8 is the way to go.

BULLETIN BOARD

CALCULATORS

WAY PAST 2+2

Remember when all that calculators did was simple arithmetic? Now these handy devices have really become special-purpose computers, and the new TI-92 from Texas Instruments Inc. (800 842-2737) shows how much can be crammed into a 20-ounce, $200 package. The TI-92, built around a special version of the Motorola Inc. 68000

processor that powered the original Macintosh, features a diminutive, but full, "qwerty" keyboard. The unit, designed for teaching advanced high school algebra and calculus, does symbolic math—producing integrals, derivatives, and other exotic functions. And it can display and manipulate geometric figures on a small liquid-crystal display. The TI-92 will be available in the fall.

LAPTOPS

A POUCH O' HARDWARE

When traveling with a laptop, I've often found myself lacking some critical doodad needed to hook my machine to a phone line or recharge its batteries. Life-Links, from Travelopolis Inc. (305 593-2361), are collections of phone and electrical cables and connectors in a handy pouch designed to solve that problem. The basic $29 kit includes telephone and printer cables, phone cable splitters and couplers, and a mini surge protector.

QUESTIONS? COMMENTS? techandu@mgh.com on Internet or fax (202) 383-2125

have a significant advantage over those tied down by convention, bureaucracy and big-spending.

FLEXIBILITY

The varied demands of today's marketplace require small businesses to perform an increasing variety of functions.

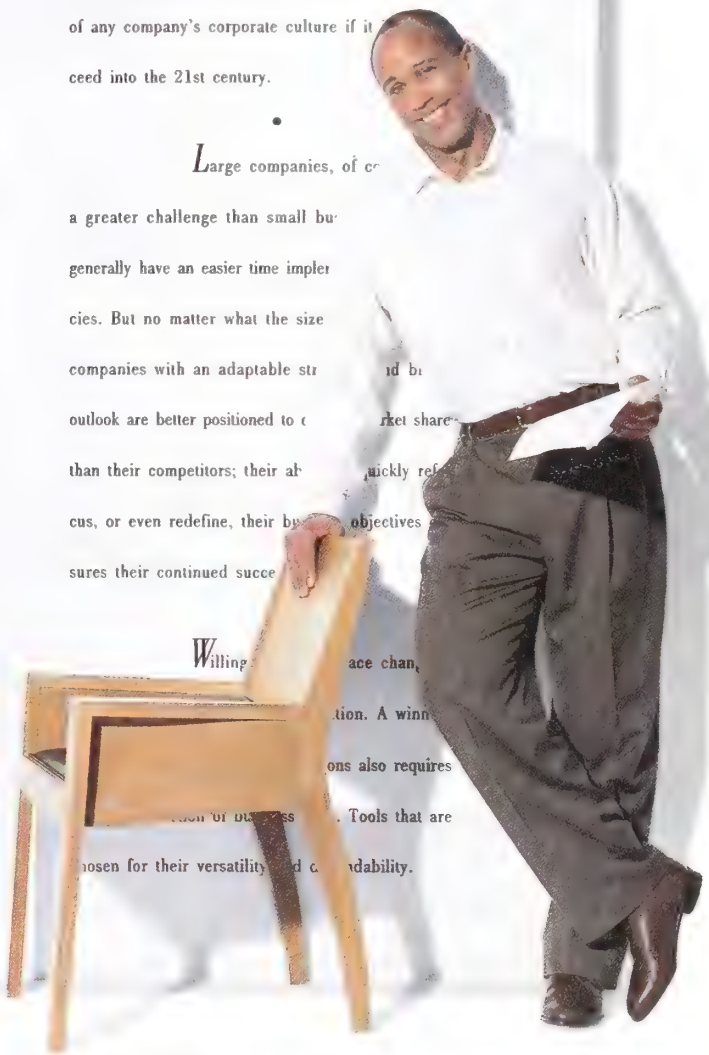
Whether it's in sales or finance, realty or retail, flexibility is the new key to long-term success. In these days of doing more with less, the way in which companies allocate resources has changed. In the past, financial clout often determined who came out on top. Today, faced with competitive and market pressures unimagined ten years ago, companies must now find

Flexibility and a sense of adventure must be a part of any company's corporate culture if it ceed into the 21st century.

•

Large companies, of c a greater challenge than small bu generally have an easier time impler cies. But no matter what the size companies with an adaptable str id bi outlook are better positioned to c rket share than their competitors; their ab uickly ref cus, or even redefine, their b objectives sures their continued succe

Willing ace chan tion. A winn ons also requires . Tools that are osen for their versatility d c dability.



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HEWLETT PACKARD

BY RUDI DORNBUSCH

RUSSIA SHOULD BET THE BANK ON THE RUBLE

PRIORITY: Stabilizing the ruble would break Russia's vicious cycle of depreciation and inflation—and support its budding market institutions

On the surface, the news out of Russia is bad. Boris Yeltsin, who once stood for the hope of democracy and reform, turns out to be unstable, poorly advised, and all too often drunk. His Cabinet is packed with communist goons, and his advisers are shady. The failed war in Chechnya is a manifestation of a government adrift. The past few years have seen ultranationalist Vladimir V. Zhirinovsky get elected; a tremendous drop in industrial output, causing vast poverty; and the spread of corruption throughout the Russian economy. The entire era has been defined by hyperinflation and a plunging ruble.

But a far more optimistic view of Russia may be justified. Prime Minister Viktor Chernomyrdin is a rising star who just might fill the political vacuum of a divided Russia. Economic reformers are hard at work in the background. Many of the goons are gone.

The best news, however, is on the ruble. For the first time since Russia embarked on its long voyage toward a market economy, there is a realistic chance for stabilizing the ruble, and the Russian government should stake everything it has on the opportunity. Stabilizing the ruble would break the vicious cycle of depreciation and inflation, creating a monetary normality that would support Russia's budding democracy.

RED-HOT PRESS. Without much publicity, the economic team headed by Anatoly Chubais has taken major steps over the past half year toward improving Russia's monetary and fiscal position. Gone is the deeply misguided central banker Viktor Gerashchenko, who thought his job was to run the printing press red-hot. Against all odds, the central bank is now saying *nyet* to credits for bankrupt companies and collectivist agricultural enterprises. At this point, monetary performance is well within International Monetary Fund targets.

Fiscal policy, too, is on course. Tax collection is being reinforced and spending controls are better. The budget is vastly improved. Conditions have never been better to stabilize the ruble at last.

In fact, the market is already taking note of recent progress. Under the pressure of monetary control, inflation has come down since January from 18% to only 7%—yes, it still is per month—and the ruble has actually risen by almost 20%. Of course, funny things happen in a hyperinflationary environment. Russians who moved into dollar and gained when the purchasing power of ru bles went to zilch are now grousing that th ruble is rising.

Nevertheless, the rising ruble is wind i the back of economic reformers. Emboldene by progress and taking advantage of the pub lic furor over eroding dollar wealth, the gov ernment has just taken a first step in stabi ization by announcing a trading band for th ruble of 4,300 to 4,900 to the dollar.

But that is not enough. This is the time t fix the ruble outright against the dollar. Wit a fixed peg, the government binds its ow monetary hands and can offer a far stronge front against the ever-present demands fo credit and ongoing inflationary pressures.

NO-MAN'S-LAND. Just as important, a stabl currency is always a major boost in populari for the leadership. That comes in good tim for the December election, where it is singu larly important to minimize the winnings o the communists and ultrarightists. The elec tions must produce more support for refor or else Russia will remain stuck in a no man's-land between communism and a free market economy.

It is not certain that the ruble stabilizatio will succeed. In monetary history, 3 out of attempts fail. Yet there is no option but t keep trying. The timing is right. Russia jus now has a lot of elements coming togethe Chernomyrdin, who once opposed "marke romanticism," has come around to suppor reform; the economic fundamentals look good and the economic team under Chubais ha demonstrated its worth in hard-nosed privat ization. None of this is permanent unless Rus sia takes the risk of fixing the ruble rate an committing to stability.

Naysayers warn that Russia is not read or that a fixed rate is a poor move compare with keeping money tight and the curren rate flexible. That advice comes typically fron the IMF or central banks, which have no polit ical stake in the outcome. Their advice is bad If Russia fails to stabilize, then output, em ployment, and real wages will keep plung ing, inequality will widen even further, an politics will become unmanageable. Russi faces the same problems—and more—tha Austria and Germany had in the 1920s. Sup porting ruble stabilization must be a priorit for anyone who wants to avoid a sharp tur for the worse.

Rudi Dornbusch is professor of economics and management at Massachusetts Institute of Technology

apan Globalizes

he two most dreaded words in anese corporate boardrooms summer are "endaka" (strong) and "sanctions."

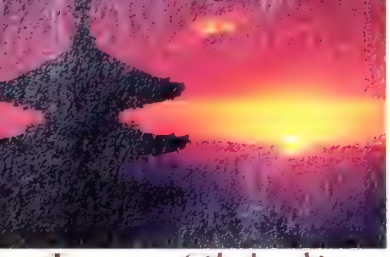
he effects of the stronger yen sanctions related to trade dis- s, both related to ongoing com- tive struggles in the new global ketplace, are having complex cts on Japanese companies.

Much has been written about the downside of "endaka," but it is, like most international economic trends, a two-edged sword. The same phenomenon which makes dollar-denominated Japanese exports more expensive also has some built-in positives.

The competitiveness of semiconductors, a leading Japanese export, often is based on factors which have nothing to do with price, such as unique design or packaging. Thus when another endaka surge strikes, manufacturers just raise their prices. If there's no one else on the "playing field," in other words, endaka has little or no impact.

Other Japanese companies with


Panasonic
Official Worldwide
Sponsor of the 1996
Olympic Games



Japan Globalizes

A Company Profile: Matsushita

When people at Matsushita Electric talk about globalization, they're talking about their company's long history of operations overseas.

Matsushita established its first overseas production plant 34 years ago. Today, 50 percent of Matsushita's worldwide sales are overseas. Last year, that amounted to 6.9 trillion yen ($78 billion), of which about 1.1 trillion yen ($11.2 billion) represented production at 109 subsidiaries in 39 countries.

This year, says Matsushita Advisor and former Senior Managing Director Tadakazu Yamamoto, the company expects double digit growth in the value of its overseas production.

Tadakazu Yamamoto
Advisor and Former Senior Managing Director
Matsushita Electric Industrial Co., Ltd.

"When you use the term 'Matsushita worker,'" says Yamamoto, "you're no longer talking only about Japanese. We employ about 100,000 people around the world, and they account for about 20 percent of our company's total production."

Matsushita eventually wants to increase that ratio to 25 percent.

The company's global strategy is not merely based on "endaka" (strong yen) pressures. "Our overseas production," says Yamamoto, "enables us to serve local markets more effectively."

Matsushita produces three types of vacuum cleaners, for example, in Spain, the U.S., and Malaysia, and supplies them to markets worldwide.

Some analysts see a "hollowing out" trend in which Japan is forced to shift manufacturing overseas to combat the stronger yen, but at Matsushita, the strategy is to keep key R&D bases, including basic technologies, at home.

"You cannot develop excellent products," says Yamamoto, "without a convergence of R&D and manufacturing."

That is why an increasing ratio of high value-added components such as semiconductors, liquid crystal displays, (LCDs) and factory automation equipment are produced in Japan.

"Our challenge at home," Yamamoto said, "is to develop products in which both sound and images are digitized, thus creating a new generation of value-added consumer electronic products."

Matsushita also has established six overseas R&D centers.

"We are more interested in using these plants to serve local markets than in using them as re-export bases," Yamamoto said.

Early this year, Matsushita began producing air conditioners in China, coordinating that with the opening of an air conditioner compressor factory in that country.

Matsushita also produces color television sets in India and Vietnam on a technical assistance basis, and is studying production possibilities in Eastern Europe.

The result of these overseas activities is what Matsushita calls "global and group management," linking the head office, regional management divisions, manufacturing divisions and subsidiaries around the world.

production overseas are now using endaka as a price leverage strategy — importing dollar-based products made abroad to take advantage of the new spreads.

The stronger yen is also reducing the cost of raw materials that Japanese companies purchase from abroad, and it's also made dollar-denominated investments in Asia dramatically less expensive.

Positive Results

For these and other reasons, Japanese corporations which are globalizing their business by rapidly shifting more production overseas are finding that the net result often is more positive than negative.

"In Asia, the Japanese are two strides ahead of everybody else," says Timothy Dunn, a consultant for Automotive Resources Asia Ltd. "We expect them to keep their stranglehold on the region for at least the next decade."

The increasing strategic importance of Japanese business in Asia's growing markets indicates that its auto industry, for example,

Tokyo's Hotel Okura.

Toshiba Multimedia

·T2150CDT ·10.4 dia. color active matrix display ·8MB RAM expandable to 32MB ·75MHz Intel DX4™, 3.3v ·520 Million Bytes (~500MB) HDD ·Two stacked PCMCIA

(PC Card) slots (two Type I-II or one Type III) ·Accupoint integrated pointing device ·Sound-Blaster™ Pro compatible WAV and MIDI sound support

Time and space died yesterday. A new language was born.

An advanced portable, with an integrated CD-ROM, the Toshiba Satellite Pro T2150CD Series Notebook

Multimedia. Moving as fast as your ideas.

is almost as easy to use as a TV but infinitely more capable.

Now you are totally portable. Turning words into entertainment.

Enormous data storage, speed and stereo sound will transform your thinking forever.

Across time zones or across the road. You are your nomadic ancestors again.

Carry the contents of the last 200 years of thinking under your arm. Supported by its own semiconductor technology.

This time in the fast lane. Step quickly.

Toshiba is mapping the new multimedia frontier. This is just the beginning. Stay tuned.

In Touch with Tomorrow

TOSHIBA

http://www.toshiba.com

Japan Globalizes

A Company Profile: Toshiba

A decade ago, the term 'globalization' meant little more to most Japanese companies than doing business overseas.

Japan, after all, was the center of their business activities.

Those days are over, says Executive Vice President Yoshihiko Wakumoto of Toshiba Corporation.

As head of corporate planning, Wakumoto says that globalization is constantly on his mind. "I see it as a continuing process through which we are integrating our business in the major regions of the world."

Yoshihiko Wakumoto
Executive Vice President
Toshiba Corporation

The driving force behind this, he said, is economic reality.

"In Japan, growth rates will be low for the foreseeable future," he explained. "If Toshiba's own growth rate only equals that of Japan, it too, will be low. We must be active in areas where we expect to see growth in coming years, and in our view of things, Asia offers very high potential.

Today, overseas business accounts for about one-third of Toshiba's sales, Wakumoto said. He wants to see the ratio rise to more than 40% by the start of the century, and by the year 2010, he said, "our goal is to increase overseas business to beyond 50% of total sales."

As that ratio rises, it is dramatically changing the nature of Toshiba's overseas business.

"The last few years," he said, "have seen dramatic improvements in the production capabilities of our plants in Southeast Asia and China. As a result, they now manufacture many complex components. This allows our domestic plants to develop and produce key parts and new components, and to promote advances in manufacturing technology.

"Our Asian plants now meet the quality standards expected by Japanese consumers," he said, "so we can now import more value-added products and sell them successfully."

At Toshiba, globalization has another key aspect: strategic international alliances.

A major project with IBM and Siemens of Germany, for example, is moving toward the final stage of development of a 256-megabit memory chip. Another venture with IBM Japan is producing large-size TFT displays for use in computers and other products.

Perhaps Toshiba's most forward-looking international alliance is its wide-ranging relationship with Time-Warner, which is positioning both companies to play a major role in future multi-media markets, including cable television in Japan.

"Our alliances have another benefit," Wakumoto said. "They give our engineers a wonderful incentive to further develop their know-how and encourage an innovative spirit."

This is a good definition of how globalization can revitalize a corporation.

may not be damaged so badly despite punitive tariffs on luxury cars shipped to the United States.

Some analysts suggest that sanctions on Japanese automakers may result in accelerating an already-impressive push into Asian markets where Japanese firms seem more welcome.

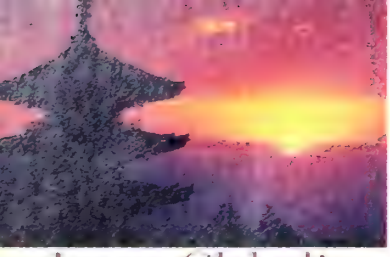
Research published by Automotive Resources Asia predicts that passenger-car and light-commercial vehicle sales in the major economies of Asia will soar to 4.2 million units in 2000 from 2.5 million units last year. That adds up to double-digit annual growth, far more than anything in sight in the U.S.

Most Japanese firms also have maintained their core manufacturing skills at home. Older factories in Japan are being retooled to make high value-added components that go into products assembled abroad.

Moreover, despite much publicity about the end of Japan's so-called lifetime employment system, Japanese companies have closed only a handful of plants, while unemployment remains at

Night view of Mount Fuji on Honshu Island.

ercent, the lowest in the indus-
alized world.
Japanese manufacturers' direct
estment overseas last year grew
3 percent over the previous year,
rding to a survey released last
ek by the Export-Import Bank of
pan. While overseas investment
clined in the early 1990s, it has
own in the last two years and is
pected to rise sharply this year.
The investment wave should
ult in a flurry of orders for
dustrial machinery to equip the
tories. It also will help keep fac-
ies in Japan active, as they
us on supplying the sophisticat-
components that go inside the
ished goods assembled abroad.
"Exports to Southeast Asia and
ina will improve because of
eir rising purchasing power,"
d Koji Suzuki, an economist at
Export-Import Bank.
"Even if exports to the U.S.
crease because of the rising yen,
mpanies in Japan can survive."
More and more of that business
being done in yen rather than
lars. A Ministry of International
ade and Industry report claims
at about 40 percent of all
panese exports are now denomi-
ted in yen, up from 34 percent
1988.
For example, one leading manu-
turer of electronic parts, mag-
ic tapes and floppy discs
ports that it sold 85 percent of
products in yen between
tober and December 1994, up
m 40 percent during the same
riod the year before.
The high yen also is making it



Japan Globalizes

A Company Profile: NEC

When NEC Corporation President Dr. Hisashi Kaneko was invited to speak at the engineering department of a famous Japanese university not long ago, he surprised the audience with his subject title: globalization.

"They might have expected me to talk about technology," he said, "but I think globalization is just as important. If we do not open our minds to the challenges and opportunities of working in a global environment, we will never understand the world we're living in."

Dr. Hisashi Kaneko
President
NEC Corporation

When Dr. Kaneko mentions globalization, he's referring not only to an NEC tradition, but a major part of his life.

When he became President of NEC USA in 1989, what he calls 'mesh globalization' was one of his major goals.

"It is not enough just to have operations around the world," he said. "Our strategy is to achieve 'mesh globalization,' to promote the sharing of information, products, and technology among all our facilities around the globe, and thus enhance our ability to serve customers."

When NEC was founded in 1899, its stated goal was to manufacture superior products and provide superior service.

"Even at the end of the 19th Century," Dr. Kaneko pointed out, "you could see what our values were."

Today, NEC has 37 production plants in 17 countries around the world, and 43 marketing and service firms in 22 countries. Nonetheless, 'mesh globalization' would be little more than a slogan without the deep commitment of top management.

"Things should not be controlled by Tokyo headquarters," said Dr. Kaneko. "Most of our top management in America are Americans, but what is really important is how those managers, or any NEC manager, thinks.

"We want people who think globally, and especially about how our companies around the world can help each other."

International alliances are another part of globalization.

"We seek relationships which benefit both sides," he said. "We have a joint venture with AT&T Microelectronics to develop a next generation semiconductor fabrication process. Our production technology is helping AT&T and their computer-assisted-design know-how is helping us."

In Europe, NEC and Bull, the French electronics conglomerate, are combining the strong points of both companies in a venture to develop future products for the Information Superhighway.

The latest evidence of how NEC is pursuing constant technology innovation is what might be called the "multimedia chip," the world's first semiconductor with a memory capacity of 1-gigabit.

Just one of these chips can contain four complete sets of the works of William Shakespeare, or four hours of compact disk quality sound, or 15 minutes of video images.

much more expensive for foreign firms to do business in Japan. A survey by management consulting firm A.T. Kearney, which compared 130 leading U.S. and European corporations with major Japanese operations found that Japan has become a significantly less attractive investment market because of high investment costs when measured in dollars.

Meanwhile Back At Home

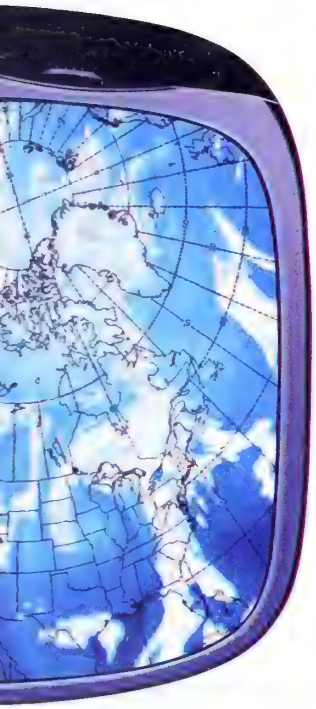
At Toshiba, one innovative approach to lowering costs is called the one-person production system.

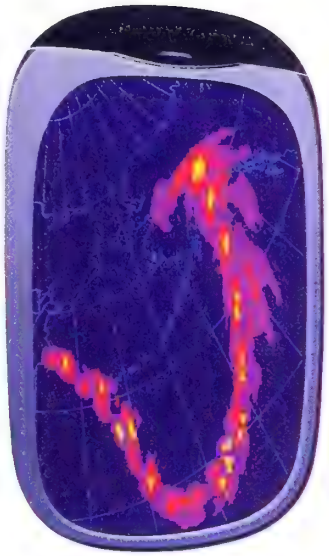
Most word processor production lines have 12-13 people, each assigned a specific task. They produce 20-30 word processors per person per day. On Toshiba's test line, each person builds word processors from start to finish. And they can do it at least as fast as the traditional assembly system. Toshiba thinks productivity will reach at least 40 machines per person per day.

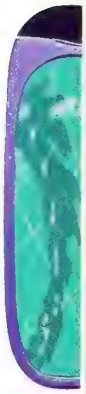
If its experiment in one-person production works, Toshiba thinks it will lead to more flexibility, especially improving its ability to produce many products in small lots. That way, managers say, fluctuations in demand won't result in warehouses full of unsold products.

Once again, Japanese corporations are proving that whether the pressures are local, or global, a relentless pursuit of improved productivity is the best formula for survival in a global business environment. •

&C for Human Potential

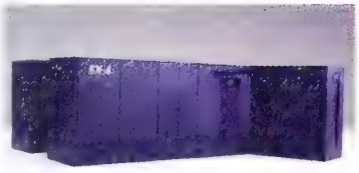






ook . . .
o in the sky . . .
redictions that protect the environment!

computerized atmospheric modeling is essential to determine the health of the environment. In Canada, scientists use C Supercomputer to simulate the complex movements of toxic materials after a release, or airborne volcanic ash follow- eruption. In such situations, an atmospheric model is the only way of determining the immediate risk to people and the nment. Airlines can be given early warning so planes avoid airspace contaminated with volcanic ash. And models gen- on the NEC Supercomputer make possible more accurate weather predictions – predictions that help minimize the t of potential disasters. All of which means a better forecast for the environment. In other words, things are looking up.



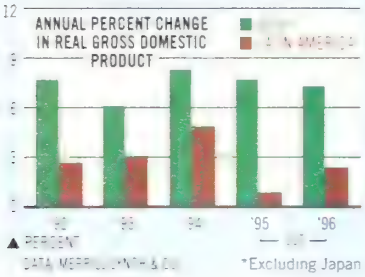
BY KAREN PENNAR

AMERICA: LOSING OUT ON EXPORTS?

Japan is making tracks in Asia

In years to come, the real trade battleground for Japan and the U.S. will be the developing world. With 80% of world population and with growth rates nearly twice those of industrial nations, developing countries "have already emerged as a legitimate fourth engine in the world economy" (after the U.S., Japan, and Europe), says Joseph P. Quinlan, of Dean Witter Reynolds Inc.

ASIA'S GROWTH OUTSTRIPS LATIN AMERICA'S



The U.S. is the leading exporter to 19 of these developing nations; Japan to 13. (Germany ranks third, as leading supplier to 9.) America is dominant largely in Latin America; Japan in Asia. But the downside for the U.S.—and the upside for Japan—is that near-term prospects are poor for Latin America, while Asia is poised to turn in the strongest economic performance of any region over the next couple of years. And growth means robust demand.

Economists at Merrill Lynch & Co. figure that, while growth around the world will slow this year and next, it will remain fairly strong in Asia, coming in at 7.3% in 1996. Traditionally, Asia exports heavily to the U.S., then uses the dollars to buy from Japan. The surge in the value of the yen might mean Asia cuts back on Japanese imports, but it's unlikely there will be a big shift in the established trading pattern, says John Praveen, economist at Merrill Lynch.

In fact, Japan enhanced its position in Asia last year, notes Dean Witter's Quinlan—pushing out Hong Kong as top foreign supplier to China. It also became the No. 1 exporter to the Philippines and Pakistan, unseating the U.S. India imports more from America than from Japan, but Japan is gaining fast.

The U.S., meanwhile, retains its dominance in Latin America. But this region's demand for U.S. goods is unlikely to expand much. Latin American nations will see overall growth of just 0.9% this year and will probably rebound to about 2.4% next year.

THOSE MEAGER CASINO RAKE-OFFS

State coffers won't be bulging

More and more states are looking to casinos for revenue, and more and more officials are apt to be disappointed. Steven D. Gold, director of the Center for the Study of the States at the State University of New York at Albany, says revenues from casinos and other forms of gambling may be modest, and that costs could rise as well.

Lotteries, for instance, last year contributed an average of only 3.2% of tax revenues in the 36 states and the District of Columbia where lotteries operate. Although Nevada—a special case—earns about half of its revenues from casinos, the casinos in New Jersey bring in only about 2.5% of the state's revenues. As more states and Native American tribes open casinos, competition will divide the market, and casinos will cannibalize other gaming, such as lottery purchases, says Gold. Then, too, the presence of casinos can lead to more crime, and thereby inflate costs.

A LONG LINE FOR FAST-FOOD JOBS

For every post, 14 applicants

All welfare-reform proposals share a goal: to push recipients to get jobs. But just how easy is it for people to find work—even low-wage, low-skill jobs?

Not so easy, it turns out. In the inner cities, fast-food jobs have become "the object of fierce competition," according to an article in *The American Prospect* by anthropologist Katherine Newman and doctoral candidate Chauncy Lennon, both of Columbia University. Fast-food outlets now employ more than 2.3 million workers and are gaining on the armed forces as a gateway to the world of work. So Newman and Lennon studied the work histories of 200 people employed in such eateries in Harlem.

Among their findings: Workers in their 20s, often high school graduate dominate these minimum-wage jobs on taken by dropouts and young peop just starting out. Legal immigrants te to be favored over native-born app cants in securing entry-level wor Friends and family members who ha jobs help people to get work, puttin others who are isolated from such ne works at a disadvantage. Employer including black employers, favor app cants who are not African America While blacks are hardly shut out of th low-wage market—they represent abo 70% of the new hires in these jobs they are rejected at a much higher ra than applicants from other ethnic grou who have the same qualifications, s the authors.

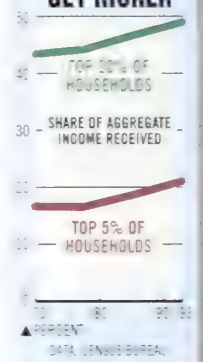
At restaurants where the responden worked, applicants outnumber hires to 1. This glut of job-seekers mea that workers in ghetto services a more highly qualified than before, th authors note. Welfare recipients w have to get at the end of a long line.

THE RICH ARE IN A SPENDING MOO

And that should stave off a slump

Take a look at what has happene to income distribution, factor in ho strong the stock market has been, a it's clear there won't be a recession anytime soon. That's the conclusion drawn by David G. Shulman, chief equity strategist at Salomon Brothers Inc. Shulman figures the upward shift in income makes overall consumption spending dependent on a narrower base of people. And the spending of rich folk, Shulman says, determined not only by their salari but also by changes in asset prices. I deed, this wealth effect is quite powe ful. "Like it or not," says Shulman, "th mutual-fund boom of the 1990s h made real economic activity more tied t the performance of financial assets tha ever before." So the $850 billion a vance in stock-market valuations in th first half doesn't portend a recession- unless it's reversed in a hurry.

THE RICH GET RICHER

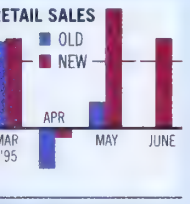


AMES C. COOPER & KATHLEEN MADIGAN

EMAND MAKES STURDY LITTLE COMEBACK

U.S. ECONOMY A month ago, the data seemed to raise the red flag for many omy-watchers. Flat retail sales, soaring inventories, falling output lined up like so many ducks in a row, king recession. Now, though, thanks to fresh infor-on and revisions, the data trumpet a far healthier omy, especially on the important demand side.

REVISIONS SHOW PEPPIER CONSUMER



THLY PERCENT CHANGE
. COMMERCE DEPT., BUSINESS WEEK

The latest economic news shows that shoppers were out spending last quarter, while businesses cut inventory gains in May, paving the way for at least a tiny uptick in factory output in June. Inflation, meanwhile, is hardly worth noticing.

If anything dims the outlook, it is the record trade deficit. A wider trade gap, along with slower inventory growth, ny growth in real gross domestic product struggled ay positive in the second quarter. Final demand, gh, was solid, and that upward trend is crucial to economy's second-half performance.

HEALTHIER DATA made it easier for Federal rve Chairman Alan Greenspan to defend monetary y to Congress. During his semiannual Humphrey-kins testimony on July 19, Greenspan said the t may be over. And while he would not complete-le out a recession, the chairman said: "Going for-l, of the several credible outlooks, the most prob-is for an upturn in the growth rate."

e Fed also released its economic forecast for 1995 1996. Real GDP should grow between 1½% and 2% 995, and 2¼% to 2¾% in 1996. Consumer prices rise between 3⅛% and 3⅜% this year, and only to 3¼% in 1996. This lower inflation is significant to e hoping for further cuts in interest rates. Green-testified that "easing would be appropriate if rlying forces were clearly pointing toward reduced tion pressures in the future." But his hint did not the financial markets. Sensing no immediate rate the stock and bond markets tanked on July 19.

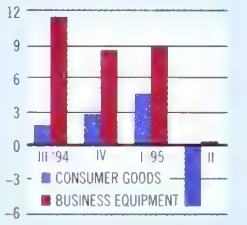
eenspan also noted that the inventory correction have been contained within the second quarter. 's partly because retailers were busier in the spring first thought. The Commerce Dept. reported that l sales jumped 0.7% in June, and it revised upward April and May readings (chart). That means that in-l of falling at a 2% annual rate in the second quarter as indicated a month ago, real retail sales grew at about a 2.3% pace.

Consumers were buying early in the third quarter as well. The *Johnson Redbook Report* said that sales at department and discount stores surged 1.1% in the first two weeks of July from June. Hot-weather items, such as air conditioners and pool supplies, were extremely popular, as residents in the Midwest and East tried to beat the record-setting heat and humidity.

Moreover, housing is settling down to a slower but steady pace. Starts fell just 0.1% in June, to an annual rate of 1.26 million, and May starts were revised higher. New single-family homebuilding jumped 3.9%, as buyers, lured by low mortgage rates in May, depleted what had been a high supply of unsold homes.

In fact, stronger consumer demand is helping to clear out all types of inventories. Earlier this year, manufacturers, wholesalers, and retailers saw excess goods pile up. But by May, companies had scaled back the growth in their stock levels.

THE BROAD SLOWDOWN IN FACTORY OUTPUT



▲PERCENT CHANGE, ANNUAL RATES
DATA: FEDERAL RESERVE, BUSINESS WEEK

Business inventories edged up 0.4% in May after gains averaging 1% in the previous four months. Apparel stores made particularly good progress. After their ratio of inventory to sales hit a 10-year high in April, the ratio came down sharply in May.

Less inventory growth reduced economic activity last quarter. If June stock levels also rose just 0.4%, inventory accumulation was about one-third less than in the first quarter—enough to subtract more than one percentage point from GDP growth.

The good news is that businesses wasted little time in adjusting their inventories after demand slowed early in the year. So, factory output will pick up sooner than it did in past inventory corrections.

THAT REBOUND may be starting. Industrial production eked out a 0.1% rise in June, following three consecutive declines. So for the third quarter, output dropped at a 3.3% annual rate. Industrial operating rates slipped to 83.5% in June, from 83.7% in May.

Factory output alone rose 0.1% in June after two monthly declines. Manufacturing production fell by 3.9% last quarter, led by consumer goods (chart). Hours worked in the factory sector, however, fell by twice the output drop. That suggests another jump in factory

ERIC HOFFMANN/BW

productivity—one reason why profits rose last quarter, even as the economy slowed (page 36).

With the inventory problem abating and demand firming, industrial output should pick up in coming months. In July, the heat wave alone greatly pushed up utility demand for the month.

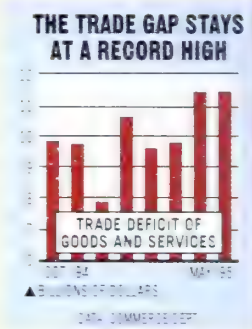
BUT STRONGER DEMAND also means that foreign trade will continue to be a serious drag. The trade deficit for goods and services defied expectations in May, remaining at $11.4 billion (chart). Exports rose by a respectable 1.3% in May, to $64.8 billion. That reflects strong demand overseas for capital goods, which set a record in May, despite a plunge in aircraft exports.

But imports also grew to another record in May, advancing 1.1%, to $76.2 billion. Even as the Fed has tried to choke off domestic demand over the past 1½ years, imports have been surging at a 13% yearly pace. Without some slowdown in this inflow, the U. S. cannot hope to reverse the deterioration in trade.

The June deficit should narrow. Japan has already reported a drop in its surplus with the U. S. (see below). But even if the June gap shrank to $10 billion, foreign trade may have robbed almost one percentage point from the growth in second-quarter GDP.

The import wave is also importing some inflation, a fact noted in Greenspan's testimony. Inflation in consumer-goods imports still trails the rise in consumer prices overall. But the weak dollar and high global demand for business equipment mean that import prices of capital goods have picked up steam.

Such prices have risen 3% from a year ago, much faster than the 0.7% increase of the previous 12 months and the 1.7% pace of U. S. producer prices of capital goods. The gap opens the door for U. S. producers of capital goods to mark up their own prices.



In general, though, inflation remains in the shadows during this expansion. Consumer prices rose only 0.1% in June. Excluding food and energy, prices were up 0.2%. And producer prices of finished goods actually fell 0.1% in June, while the core rate rose by 0.2%.

In the first half of 1995, total consumer inflation is running at a mild 3.2% annual pace, with the core rate up 3.6%. Because the economy is unlikely to grow much more than 2.5% in the next few quarters, few price pressures should materialize.

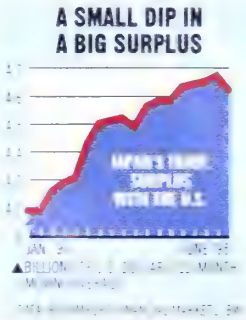
When combined, the modest inflation outlook and the signs of renewed demand offer the economy the best of both worlds. Don't look for a repeat of the spectacular runup of 1994, but the expansion in 1995 continues to avoid the dangerous shoals of recession.

JAPAN

THE DROUGHT WON'T LIFT

The latest data suggest that Japan's economy contracted further in the second quarter, after almost no growth in the first. The recessionary clouds overhead mean higher unemployment, shrinking profits, and more problems for Japan's frail banking system.

The most recent bad news: Production fell 0.5% in May, as new factory orders, excluding ships and electricity, sank 8.1% from April. Inventories of finished goods rose for the fifth straight month in May, to stand at their highest level in 1½ years. And the jobless rate remains above 3%. That's why it came as no surprise when the Economic Planning Agency's July 14 economic report admitted: "The recovery has stalled." It added: "There's an increasing risk that [the economy] will deteriorate."



The only source of strength has been trade. Japan's trade surplus grew in June, to $11.57 billion, up 2.1% from a year ago. But the trade surplus with the U. S. slipped 11.5% from a year ago. And because of the yen and a slowing U. S. economy, the surplus shows signs of shrinking (chart).

The U. S. trade turnaround is one reason for the recent weakening in the yen. The yen began to slip after the June 28 U. S.-Japan trade agreement. Then the Bank of Japan followed the Federal Reserve interest-rate cut on July 6. The BOJ cut the official discount rate a half-point, to a record low of 0.75%. As a result, the U. S. dollar has traded above 87 yen so far in July—a more tolerable exchange rate for Japanese exporters.

But the yen must weaken further to offer any relief for Japan's banking system. Banks hold more than 40 trillion yen in bad loans. And economists at Hitachi Research Institute calculate that an additional 2 million to 5 trillion yen of loans go awry every year—a worrisome trend given the sinking value of such collateral as real estate and stocks.

The ruling coalition has hinted only at an added 10 trillion yen in fiscal stimulus for this year. But that's little help. Tokyo will have to initiate structural changes to lift the economy's direction.

"Are all Internet service providers the same?"

"How can I create a Web site?"

"Aren't there different kinds of service?"

"How much will it cost?"

"Who do I call?"

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Vhat equipment do I need?"

"What kind of support can I expect?"

"How does the Internet work?"

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"Is an Internet connection dependable?"

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DEALS

TOO BIG A STRETCH?

A CBS deal would severely strain Westinghouse

How bad have things gotten for CBS? Try finding the Tiffany Network in Detroit. Motor City viewers used to tune to Channel 2 for such CBS fare as *Murphy Brown* and National Football League games. Now, they must climb to Channel 62, WGPR, an erstwhile UHF Christian station whose call letters stand for "Where God's Power Reigns." Once they find the weaker signal, they'll notice that football has gone to the Fox Network, local news is absent, and the CBS lineup is glaringly short on such hits as NBC's *ER* or *Friends*.

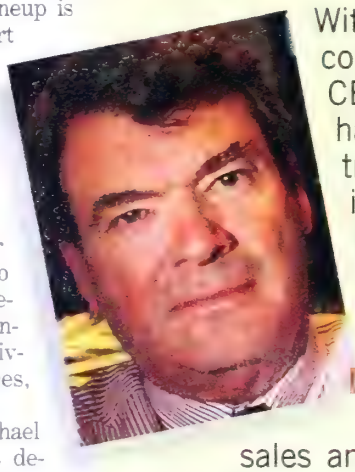
Kinda stinks, huh? Well, now contemplate selling nuclear power plants to China, or torpedoes to a downsizing Navy. Given the choices, Westinghouse Chairman Michael H. Jordan has developed a taste for Tiffany, no matter how many cracks. After months of speculation that Ted Turner, Barry Diller, or even Edgar Bronfman would swoop in to cut a deal with CBS Chairman Laurence A. Tisch, Jordan appears ready to pay an estimated $5 billion for the network. If he can raise the money to finance such a bid—no sure thing—and get over some regulatory issues, it would mean "a total change in strategy and focus," says Salomon Brothers Inc. analyst Russell L. Leavitt.

Neither Westinghouse nor CBS will confirm the talks, but reports say Chemical Bank and J. P. Morgan are prepared to ante up $2 billion to back such a bid and are lining up syndication partners to provide loans for the deal. Jordan, still stuck with a mountain of debt and a $1 billion unfunded pension liability, likely would have to sell assets such as the company's defense electronics unit to pay for the purchase. CBS's cash flow will help appease lenders, even as ratings agencies threaten to downgrade Westinghouse Electric Corp. debt below its current junk status. "Westinghouse is a so-so credit," says one interested banker, "but CBS has so many hidden values that it could be a damn gem."

A damn expensive one, anyway. As remarkable as Westinghouse's gamble would be, even more remarkable is the likely $80-a-share price. Such an offer would come as sweet vindication for Tisch, who has watched the value of h network climb even as its operating fo tunes have fallen: The company's profi dropped 53% in the second quarter, a it has skidded to third place in the ra ings—fourth among younger viewer Grumbles the head of one CBS affiliat "He may not know much about broa casting, but we all should be so stupid Larry Tisch."

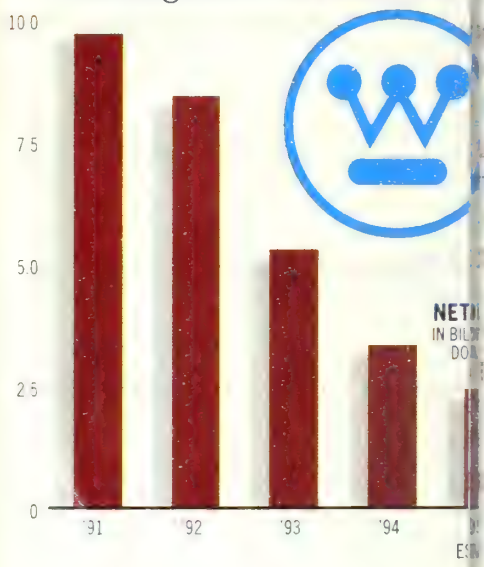
Tisch could walk off with an enormo profit. But for Jordan to make this ga ble pay off, he'll have to fix CBS's distrib tion problems and revamp its limp pr gramming lineup, all the while managi a prodigious pile of new debt. Westin house, which established the countr first commercial radio station, Pittsburg KDKA, in 1920, has plenty of experience broadcasting—its highly profitable Gro W unit owns 18 radio stations and 5 affiliates. Still, turning around the aili

How to Buy a Network



With debt under control, Westinghouse CEO Michael Jordan hasn't had much trouble lining up interested backers for its potential $80-per-share cash bid for CBS. The rest of the money could come from asset sales and from dipping into the Tiffany Network's own healthy cash flow.

Westinghouse's Debt Is Do



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a CBS executive.
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the works, say sources close to the
panies. The partnership joins their
rtising sales forces and provides a
of 13 allied TV stations that guaran-
distribution to shows the companies
uce. Together, the Group W and CBS
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% market penetration, but pending
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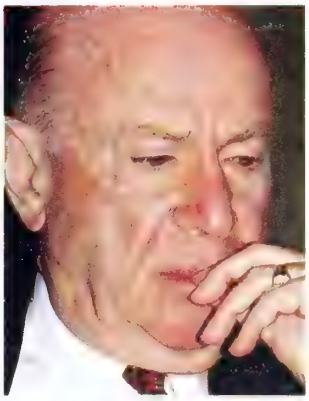
ver since he came to Westinghouse
PepsiCo Inc. in 1993, Jordan has



VINDICATED Despite operating woes, CBS's value is up. "He may not know much about broadcasting, but we all should be so stupid as Larry Tisch"

ired the broadcast group, which
ps out a quarter of the company's
ings on 10% of sales. It has been so
hy, in fact, that many Westinghouse
hers wondered whether Jordan
t sell it, at a premium price, to clean
he company's tattered balance sheet.
ould have happened," admits Group
hairman William C. Korn.
stead, Jordan stuck with broadcast-
even though he figured he'd have
ouble the group's size to be a true player. Rupert Murdoch's raid last year on eight CBS affiliates provided an opportunity to do just that—cheaply. After the raid, Jordan and Korn saw CBS needed new stations. So they switched Group W outlets in Philadelphia, Boston, and Baltimore from other networks to CBS in return for CBS's participation in the sweeping joint venture. That gave Westinghouse a powerful partner to develop programming and pursue more stations—and a chance, as Korn says, "to grow with 50¢ dollars."

Was Jordon lured to buy the whole thing by Tisch's salesmanship? After all, the CBS chairman can point to "up-front" ad sales for the coming fall season that are up a record 12%, to $1.3 billion. Tisch also has worked to shore up the network's programming, which caters heavily to older audiences. Since last year, he has ponied up about $30 million to lure both *NYPD Blue* developer Steven Bochco and Leslie Moonves, the former head of TV production for Warner Bros. Inc., who developed *ER* and *Friends*.

Fixing the programming problems, however, will take years not months. CBS isn't particularly strong on any night in prime time. Lacking football, moreover, the network still has nothing on Sunday to lead into *60 Minutes*. This fall, CBS is trying to court younger viewers with shows such as *Bless This House*, which stars raunchy comedian Andrew (formerly Dice) Clay. But even CBS executives admit they're probably two years away from a big rebound. And they still have to fix situations like Detroit, where new affiliates need to build market presence from scratch.

RAZOR THIN. For Jordan, though, the choices are bleak. His power businesses face fierce competition in an oversupplied world market. Europe's markets are protected, and in Asia, where powerhouses such as General Electric, Mitsubishi, and Siemens are clamoring for footholds, margins are razor thin. These tough conditions led Jordan to predict a tumble of 30% to 40% in second-quarter earnings. Future growth in these old-line businesses hinges on emerging markets, such as China and Russia.

So why not dwell instead on the huge amount of cash that CBS's TV and radio throw off—60% of the network's $490 million in cash flow this year. That haul, says Merrill Lynch & Co. analyst Jessica Reif, covers the interest on the network's less than $650 million in debt 13 times over and leaves room for up to $3 billion in new leverage. Add in more than $2.5 billion of tax-loss carryforwards Westinghouse enjoys that could shelter CBS's earnings, and a financing is doable. Question is, are Jordan and his shareholders trading one set of headaches for another.

By Stephen Baker in Pittsburgh and Michael Oneal in New York, with Ronald Grover in Los Angeles

nd Divisions Could Go...

O KING A jewel, since the refrig-
ransport unit grows steadily.
les: $877 million.

GROUP This long-troubled furni-
npany is inching into the black.
les: $567 million.

RONIC SYSTEMS A diverse $2.5
ivision facing Pentagon cuts.
les: $2.5 billion.

GENERATION The fossil-fuel
as a promising joint venture in
994 sales: $1.7 billion.

Y SYSTEMS Westinghouse's nu-
wer division faces flat sales and
. 1994 sales: $1.23 billion.

...But CBS's Cash Flow Is Key

CBS EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION, AND AMORTIZATION
IN MILLIONS OF DOLLARS

DATA: COMPANY REPORTS, BLOOMBERG FINANCIAL MARKETS, MERRILL LYNCH

STEVE WINTER/BLACK STAR

CORPORATE PROFITS

A SURPRISINGLY SPUNKY SECOND QUARTER

Never mind Detroit. Consider technology, paper, and steel

The gloom-and-doom crowd was wrong. Net income increased **17%**, and sales rose **12%** in BUSINESS WEEK's flash survey of second-quarter profits at **83** companies. It was a surprisingly robust performance, despite disappointing earnings at **Ford**, down **8%**, and **Chrysler**, down **86%**. The technology sector came in above expectations, even with soft-ish reports from **Microsoft** and **Intel**, managing a **54%** increase overall (below). Add to that strong results from papermakers **Champion International**, **Georgia-Pacific**, and **International Paper**, plus big increases at industrials **Alcoa** (up **383%**) and **USX** (up **45%**). The result: a quarter with some kick.

	CURRENT QTR. SALES (MILLIONS)
INDUSTRIALS	151,755.3
ABBOTT LABORATORIES	2,500.3
ALCOA	3,117.3
AMERICAN STANDARD	1,371.0
BOISE CASCADE	1,270.2
CATERPILLAR	4,213.0
CHAMPION INTERNATIONAL	1,756.4
CHRYSLER	12,500.0
CINCINNATI MILACRON	413.6
CONAGRA††	5,816.8
CORNING	1,306.5
CPC INTERNATIONAL	2,040.1
DANA	1,968.8
EASTMAN KODAK	3,938.0
FORD MOTOR	36,389.0
GENERAL ELECTRIC	17,809.0
GEORGIA-PACIFIC	3,700.0
GOODRICH (B.F.)	600.6
INLAND STEEL	1,273.5
INTERNATIONAL PAPER	5,100.0
JOHNSON & JOHNSON	4,762.0
LILLY (ELI)	1,614.8
MATTEL	763.5
McDONNELL DOUGLAS	3,922.0
PFIZER	2,482.0
PHILIP MORRIS	17,129.0
REEBOK INTERNATIONAL	788.7
ROCKWELL INTERNATIONAL†	3,452.0
RUBBERMAID	556.8
SCOTT PAPER	1,057.5
SHERWIN-WILLIAMS	904.7
TRW	2,711.6
UPJOHN	834.7
USX-U.S. STEEL GROUP	1,623.0
WHIRLPOOL	2,069.0
SERVICES	37,477.9
AMR	4,307.0
BANKAMERICA	NA
CBS	889.6
CHASE MANHATTAN	NA
CHEMICAL BANKING	NA
CITICORP	NA
CONTINENTAL AIRLINES	1,478.6
DOW JONES	577.0
FEDERAL EXPRESS††	2,469.6
FIRST CHICAGO	NA

THE MARKET

TECH STOCKS: BLOODIED, BUT...

Fundamentals seem sound, despite the sharp price drop

A week ago, there seemed no end in sight to the surge in technology stocks, which had nearly doubled as a group since last summer. Then, on July 18 and July 19, the bottom fell out, dragging down broader markets as well.

The problem: industry leaders Microsoft, IBM, and Intel posted results that either failed to meet investors' optimistic expectations or were tempered with downbeat assessments for the rest of the year. Following their lead, the entire sector swooned. "My screen is very red," says Gary Helmig, an analyst with SoundView Financial Group Inc. "It's kind of ugly." In all, the Pacific High Technology Index of 100 companies plunged 7%.

Still, many investors remain optimistic about the companies' long-term prospects (page 70)—so long as they make good on the promise of new products, such as Microsoft Corp.'s Windows 95, which have been built into their share prices. "The momentum in tech stocks has just been incredible," says Benjamin Zack, president of Zacks & Co. in Chicago.

Companies have managed that momentum by skillfully orchestrating investor expectations. Many high-tech players have underpromised and overdelivered, hoping upside earnings surprises would boost their shares. "Some do a good job of handling expectations," says Michelle R. Clayman, chief investment officer at New Amsterdam Partners, which manages $245 million in assets. "They know how to manage the Street." Exhibit A: Microsoft, she says, consistently reports

% CHG.	EST. EPS (5/18)	REPORTED EPS	DIFF.
+9	1.06	1.05	-0.01
+13	0.53	0.53	—
+383	1.15	1.23	+0.08
NM	0.63	0.65	+0.02
NM	1.21	1.82	+0.61
+35	1.57	1.62	+0.05
NM	1.59	1.93	+0.34
-86	1.27	0.70*	-0.57
+6	0.40	0.47*	+0.07
+14	0.62	0.63	+0.01
NM	0.60	0.48*	-0.12
+851	0.92	0.96	+0.04
+31	0.81	0.88	+0.07
+28	1.13	1.11	-0.02
-8	1.47	1.45	-0.02
+11	1.01	1.02	+0.01
NM	3.09	2.95	-0.14
+139	1.00	1.63	+0.63
+83	1.10	1.08	-0.02
+247	2.47	2.49	+0.02
+18	0.99	1.02	+0.03
-3	1.10	1.07	-0.03
+18	0.28	0.30	+0.02
+22	1.43	1.48	+0.05
+23	0.49	0.50	+0.01
+14	1.67	1.67	—
-58	0.57	0.40*	-0.17
+19	0.85	0.90	+0.05
-49	0.36	0.18	-0.18
+189	0.71	0.96	+0.25
+6	0.88	0.85	-0.03
+42	1.80	1.84	+0.04
-2	0.61	0.66	+0.05
+45	1.09	0.99	-0.10
-38	1.14	0.70	-0.44
+12	1.09	1.24	+0.15
+17	2.25	2.31	+0.06
+23	1.48	1.53	+0.05
-53	1.26	1.12*	-0.14
-8	1.32	1.38	+0.06
+27	1.47	1.72	+0.25
-3	1.52	1.57	+0.05
NM	0.13	3.02	+2.89
+7	0.51	0.51	—
+8	1.64	1.54	-0.10
+11	1.65	1.90	+0.25

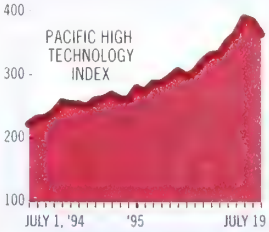
	CURRENT QTR. SALES (MILLIONS)	% CHG.	QTR. PROFITS (MILLIONS)	% CHG.	EST. EPS (5/18)	REPORTED EPS	DIFF.
FIRST FIDELITY BANCORP.	NA	NA	115.3	+3	1.33	1.34	+0.01
KROGER	5,652.9	+5	82.5	+18	0.64	0.67	+0.03
MARRIOTT INTERNATIONAL	2,112.0	+7	59.0	+23	0.44	0.45	+0.01
McGRAW-HILL	712.8	+10	52.8	+10	1.05	1.06	+0.01
MELLON BANK	NA	NA	172.0	+9	1.11	1.09	-0.02
MERRILL LYNCH	5,585.0	+25	282.8	+12	1.13	1.40	+0.27
MORGAN (J.P.)	NA	NA	315.0	-10	1.48	1.56	+0.08
NATIONSBANK	NA	NA	467.0	+7	1.64	1.70	+0.06
NBD BANCORP	NA	NA	143.4	+6	0.90	0.91	+0.01
OFFICE DEPOT	1,200.4	+30	27.4	+32	0.18	0.18	—
ROADWAY SERVICES	1,097.4	+18	-2.0	NM	0.45	-0.05	-0.50
SAFEWAY	3,753.4	+4	68.7	+17	0.56	0.57	+0.01
SCHWAB (CHARLES)	342.7	+33	44.4	+38	0.45	0.50	+0.05
TIME WARNER	1,907.0	+14	-8.0	NM	-0.07	-0.03	+0.04
TIMES MIRROR	843.3	+4	26.0	-19	0.15	0.11	-0.04
TRAVELERS GROUP	4,549.2	-1	405.9	+27	1.05	1.22	+0.17
UJB FINANCIAL	NA	NA	40.3	+41	0.75	0.72	-0.03
WELLS FARGO	NA	NA	232.0	+13	4.48	4.51	+0.03
TECHNOLOGY	41,729.0	+19	4,299.9	+54	1.08	1.19	+0.11
ADVANCED MICRO DEVICES	626.2	+17	92.0	-1	0.94	0.86	-0.08
CONNER PERIPHERALS	642.3	-1	16.7	-47	0.16	0.30	+0.14
CYPRESS SEMICONDUCTOR	134.3	+34	25.6	+121	0.49	0.54	+0.05
GENENTECH	233.1	+20	37.2	+11	0.33	0.31	-0.02
HONEYWELL	1,655.6	+13	68.9	+21	0.51	0.54	+0.03
IBM	17,531.0	+14	1,716.0	+149	2.34	2.97	+0.63
INTEL	3,894.0	+41	879.0	+37	1.01	0.99	-0.02
MICROSOFT††	1,621.0	+25	368.0	+2	0.61	0.58	-0.03
MOTOROLA	6,877.0	+26	481.0	+31	0.73	0.80	+0.07
POLAROID	572.5	-3	22.9	-22	0.62	0.50	-0.12
RAYTHEON	2,816.0	+11	195.5	+2	1.60	1.60	—
SUN MICROSYSTEMS††	1,648.1	+17	128.2	+65	1.17	1.26	+0.09
SYBASE	240.0	+26	-9.2	NM	0.13	-0.13	-0.26
TEXAS INSTRUMENTS	3,238.0	+29	278.0	+51	2.44	2.88	+0.44
UTILITIES & TELECOM	14,272.4	-3	1,555.9	-16	0.57	0.60	+0.03
GTE	5,045.0	+2	582.0	-2	0.61	0.60	-0.01
OHIO EDISON	593.8	+1	77.1	+4	0.49	0.50	+0.01
SBC COMMUNICATIONS	2,988.7	+8	442.0	+15	0.70	0.73	+0.03
SPRINT	3,365.6	+7	245.7	+12	0.69	0.70	+0.01
TECO ENERGY	349.7	-1	47.3	+11	0.38	0.40	+0.02
UNICOM	1,559.5	+9	108.9	NM	0.29	0.51	+0.22
WHEELABRATOR TECHNOLOGIES	370.0	+15	53.0	+9	0.28	0.29	+0.01

† Third-quarter results †† Fourth-quarter results NM = not meaningful NA = not available *EPS adjusted for special items

DATA: STANDARD & POOR'S COMPUSTAT, A DIVISION OF THE McGRAW-HILL COMPANIES. EARNINGS ESTIMATE DATA PROVIDED BY I/B/E/S INTERNATIONAL INC., NEW YORK, NY. I/B/E/S IS A REGISTERED TRADEMARK OF I/B/E/S INTERNATIONAL INC

ings slightly above the consensus. ie game may have backfired this Technology stocks plunged after and Microsoft had warned of a pos- second-half slow- n. And Big Blue's in- ors were spooked that half of IBM's earnings rth came from sales eases. Intel Corp.'s ings disappointment ed particularly unset- Its second quarter in 2¢ below the con- us estimate of $1.01 are, and its shares meted.

JITTERY INVESTORS



DATA: BLOOMBERG FINANCIAL MARKETS

Some big tech buyers are keeping their fingers close to the sell button. New Amsterdam's Clayman, for instance, has pulled back recently, thanks to computer models that tell her to cut her tech holdings in half, though she says she remains convinced that the sector still has tremendous potential. Adds Bruce D. Smith, a technology analyst with Morgan Stanley Asset Management Inc.: "As long as the fundamentals remain intact, this is a necessary correction in an ongoing bull market for technology."

Tech's most high-profile backer may be Fidelity Investments. Many of Fidelity's largest mutual funds were hammered by the drop in tech stocks. The $50 billion Magellan Fund, for instance, fell 1.6% on July 18. It has 45% of its assets in tech stocks. The mutual fund shook off the hit, and the firm issued a statement meant to reassure. "One quarter does not make a year," Fidelity said. For that matter, one downturn in an 18-month boom doesn't spell the end of a bull market either.

By Ira Sager in New York, with bureau reports

RAY VILLAFAN

SHOPPERS IN CHICAGO: *Retail is on the rebound, but how long will it last*

THE ECONOMY

'I'LL TAKE THAT, AND THAT, AND THAT'

New confidence in the economy turns browsers into buyers

It's a rare occasion when Tricia Seifert splurges. The 35-year-old Dallas lawyer went without living-room furniture for 12 years, and the kitchen table was one that her husband Charles Hummel had bought secondhand just after college. But three months ago, Seifert and Hummel, a petroleum engineer, plunked down more than $3,000 on a new mattress, an Ethan Allen sofa, a pine kitchen table, and patio furniture. Still to come: living-room chairs and an East Coast jaunt. "We're buying things which we'd delayed buying for five years," Seifert says.

Listen closely, and you can hear the sound of cash registers ringing and whirring across America. And what a sweet sound it is to the nation's retailers, who for months have watched nervously as consumers cowered on the sidelines, beset by worries of higher interest rates and unemployment. On July 14, the Commerce Dept. reported that retail sales were up 0.7% in June. That comes on the heels of a 0.9% rise in May, revised up from 0.2%. Total sales in June were $196 billion, up 5.9% from a year earlier. "Spending has turned around phenomenally," says Diane Swonk, an economist at First Chicago Corp. "I think we've shaken off the hangover."

Make no mistake: The nascent belt-loosening hardly portends a sequel to the spend-happy 1980s. But consumer confidence is slowly inching upward (chart). And the recent better-than-expected performances in such diverse sectors as autos, building materials, apparel, and furniture are helping allay fears of a looming recession. "There's good momentum building into the third quarter," says Chris P. Varvares, an economist with Laurence H. Meyer & Associates in St. Louis.

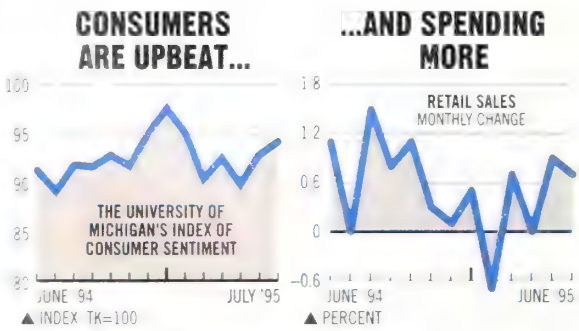
GREATER PAYOFFS. Indeed, business inventories rose just 0.4% in May, the slowest pace in five months; construction activity is back on track, and factory orders are humming. But Stephen Kovacs could have told you that. Kovacs, 40, who lives in Pembroke Pines, Fla., and owns a debt-collection agency, says the deadbeats that keep him in business aren't exactly plentiful these days. "When the economy is doing well, I have fewer accounts—but they are more collectible," Kovacs says. Kovacs' ability to collect has helped him lease a new Mercury Villager minivan and a Lexus LS400, and complete a $7,000 landscaping job at his suburban Miami home.

GREEN DAY. Confidence in the economy's vitality—plus declining interest rates and a raft of late tax refunds from the Internal Revenue Service—have brought shoppers back into stores. Target Stores, Dayton-Hudson Corp.'s discount chain, is racking up strong sales of children's apparel, music, movies, and books, thanks to such Hollywood blockbusters as *Pocahontas* and *Batman Forever*. L. L. Bean Inc., the privately held Freeport (Me.) catalog retailer, says its sales are 20% ahead of last year. Wal-Mart Stores Inc. reported a new sales increase of 13.8% for the five weeks ended June 30, compared to the same period a year ago. "We expect more of the same for the rest of the year—low inflation and moderate sales increases," says J. J. Fitzsimmons, Wal-Mart's vice-president of finance.

Strong auto sales accounted for a big chunk of June's retail sales gain; without Detroit, in fact, the increase would have been just 0.3%. And several new-model launches, coupled with lower interest rates, could keep car dealers hopping. "The industry is setting the stage for a strong launch in the fall," says Joseph Phillippi, an auto analyst with Lehman Brothers Holdings Inc.

Sales of autos and other products, though, are being propped up with heavy rebates and other incentives. Consider the case of Denise and Tom Drobek. The suburban Detroit couple have been holding their wallets tight, having just purchased a three-bedroom brick house in Troy, Mich., as well as a new jet-ski. But last month, the Drobeks wandered into a local Ford dealership and spotted a well-equipped, new 1994 F-150 pickup, marked down $4,000 to $14,700. The Drobeks decided that the $323 monthly payment was "definitely affordable" and made the buy, financing it with a five-year loan.

Not all consumers are buy-



DATA: UNIVERSITY OF MICHIGAN, COMMERCE DEPT., BLOOMBERG FINANCIAL MARKETS

Worried that the U.S. is heading
replay of the 1987 stock-market
, Martin J. Pucher, a director of
ations for DMX Inc., a television mu-
ystem based in Littleton (Colo.),
he is wary of assuming any short-
debt or making frivolous purchas-
Ie's even considering trading in the
wheel-drive Toyota he currently
s and purchasing a cheaper car he can own free and clear. "I see a crash in the next year," says Pucher. "I want to be liquid. I want to reduce debt."

Indeed, some economists believe that consumer debt threatens to block a prolonged rebound. In the first quarter of this year, such debt—credit-card and other installment bills—totaled 80% of disposable income, says David A. Levy, vice-chairman of the Jerome Levy Economics Institute. That's up from about 50% in the mid-1980s. "Income is already being diverted away from new purchases to pay for old ones," Levy says. "The question is how long consumers will be willing to add to their growing debt burden." Retailers hope it's just a little bit longer.

By Ron Stodghill II in Chicago, with bureau reports

ROIT

L REVVED UP, WHERE TO GO

ort buyers keep resisting roit's small family cars

ghteen months ago, Ford Motor Co. and Chrysler Corp. dealers across America rubbed their hands iddy anticipation. Finally, they ght, Detroit had produced small y sedans with the performance and istication to rival Japan's best. Not were Ford's new Contour and sler's Cirrus technologically top-h, they both came with stickers 00 lower than rivals from Honda r Co. and Toyota Motor Corp.

ut the bonanza never arrived. The our "is not doing as well as we all ght," laments Jack A. Terhar Jr., dent of Sill-Terhar Ford in subur-Denver. Cirrus, and its sister Dodge tus, have been slow off the line, The reason: Japanese car owners t even shopping for U.S. cars when trade in small family sedans. For-racking the market in Japan: Even eir home turf, it appears, the No. 2 No. 3 carmakers simply underesti-d the challenge of luring die-hard rt buyers.

LITY ISSUE. The new Japan fight-are vast improvements over the els they replaced, such as the ricke-Ford Tempo. Still, Ford's and sler's combined share of the small-ly-sedan segment has actually ped four percentage points from years ago, says consultant Auto-fic Inc. (chart). General Motors ., whose models such as the Pontiac d Am attract a different class of r, has stayed about even.

hy is Detroit spinning its wheels? l has caused some of its own woes. our sales have suffered because a 00 incentive on the old Taurus mod-at's being phased out has temporar-nade the Taurus cheaper to buy. e important, carmakers haven't per-ed hard-core import buyers they ompete with Japanese cars on qual-

BLIND SPOT? *The new Contour is pricier than the old Taurus—which currently carries a $2,000 incentive*

ity. Maryann Keller, auto analyst at Furman Selz Inc., says that "forgettable advertising" hasn't prompted import owners to change their ways.

Meanwhile, Japanese carmakers aren't sitting still. Salespeople are pushing their cars' sterling quality reputation—particularly compared with Chrysler models, which contain up to triple the defects of their Japanese rivals, says J.D. Power & Associates Inc. And to help gloss over the 10% average price gap, Japanese auto sellers are pushing subsidized leases that keep monthly payments low. As a result, roughly 40% of Japanese autos in the small-family-sedan segment are leased, vs. 25% for the industry overall. "We've had to get more aggressive with incentives," says Earl J. Hesterberg, general manager of Nissan's U.S. division.

Detroit's counterploy: rev up its own givebacks. In mid-May, Chrysler began offering a two-year, $229-a-month lease on the Cirrus and $219-a-month for the Stratus, which amounts to an estimated $1,000 subsidy over the life of the leases. Cirrus and Stratus immediately won 1.2 percentage points of market share in June—but mostly at the expense of Ford, which lost 2.2 points. In July, Ford countered with subsidies on two-year Contour leases valued at about $750 per car. To boost share, it also started selling more cars in low-profit deals with fleets: 33%, vs. its targeted cap of 25%.

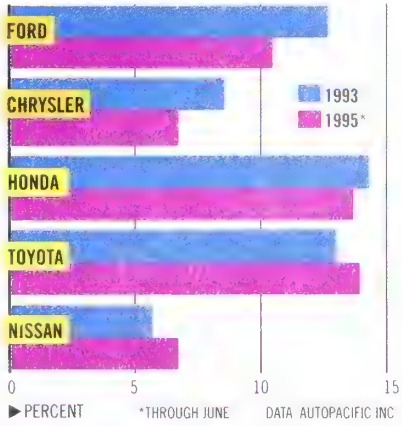
For the moment, the moves mean American auto makers aren't making much money with their splashy new cars, a fact likely to be reflected in third-quarter earnings figures. That's hardly good news for Chrysler, which saw its second-quarter earnings drop 86% because of high costs in the minivan sector, or at Ford, where North American profits dropped 25%. Over time, however, the Big Three's improving quality and increasingly thoughtful designs could start chipping away at the Japanese stranglehold, say industry analysts. Even GM may get into the act with the new Chevy Malibu and redesigned Oldsmobile Cutlass, both due in the fall of 1996.

But the slow progress is a caution sign for Detroit. The meaning: U.S. carmakers must persist, both in pricing and quality, to win back car buyers from Japanese rivals. Companies such as Honda and Toyota took decades to earn their quality cachets. Detroit can't afford to take that long.

By David Woodruff in Detroit

MOTOWN'S SMALL-SEDAN STRUGGLE

AUTO MAKERS' SHARE OF SMALL-FAMILY-SEDAN MARKET



PHOTOGRAPH BY PORTER GIFFORD/GAMMA LIAISON CHART BY LISA KNUDSE BRAIMAN/BW

BRAZEN MOVE: *Kessler has a strong "determination to do what's right"*

PEOPLE

THE FDA'S ANTISMOKING CRUSADE HAS THE GOP FUMING

What's behind David Kessler's push to regulate Big Tobacco?

He has always been controversial, but nobody ever called David A. Kessler nutty—that is until now. After the Republican takeover of Congress last November, the brash commissioner of the Food & Drug Administration lowered his profile as Washington's most zealous regulation czar. But behind the scenes, he was plotting one of his most audacious moves yet: In mid-July, Kessler sought White House authority to regulate Big Tobacco.

With the FDA already besieged by GOP lawmakers for alleged overregulation of drugs, medical devices, and food, Republicans couldn't believe it. "The FDA has lost its mind," gasped House Speaker Newt Gingrich (R-Ga.). And a former top Bush Administration official says Kessler's latest crusade is "politically crazy."

PERSONAL MISSION. Crazy, perhaps. But calculating, for certain. As is often the case with Washington's most admired—and reviled—regulator, there is more to David Kessler's brashness than meets the eye. He's on a personal mission. And he's operating on a conviction that, despite all the hand-wringing among Democrats about the political liabilities this will have in key tobacco states, the American public will embrace his cause.

Kessler isn't looking to ban cigarettes altogether. He's focusing on Big Tobacco's Achilles' heel: addiction among adolescents—a goal that's a winner with voters all across the political spectrum. Changing the habits of America's next generation "could radically reduce the incidence of smoking-related death and disease," Kessler said in a March speech.

Kessler has lowered his sights since last year, when he urged a Democrat-controlled Congress to regulate cigarettes. Instead, he's taking on the tobacco industry through what Democratic pollster Mark Mellman calls "mom-and-apple pie issues." He wants to limit the locations of—or ban altogether—cigarette-vending machines. And the FDA commissioner hopes to strengthen restrictions on marketing aimed at children by prohibiting some promotions, such as free cigarette samples. Kessler probably has the public on his side: A recent survey carried out by the Robert Wood Johnson Foundation found that three-quarters of Americans say they favor banning cigarette-vending machines and self-service cigarette displays in stores entirely.

For now, the White House has responded cautiously. "The President's instincts would be to try to work out an agreement with the industry," notes one senior Clinton Administration official. That won't be easy, since Big Tobacco isn't looking for a compromise. "Kessler apparently has a secret plan to impose more and more regulations from Washington—regulations that go far beyond youth smoking and strike at the heart of the right of adults to make decisions for themselves," Philip Morris Cos. says in a statement.

EGO TRIP. Is Kessler fighting a losing battle? Maybe, but supporters call him gutsy. "His decision to proceed on tobacco may be the product of something that's in short supply in this town—a determination to do what's right," says one friend.

Critics say Kessler is on an ego trip. "He wants to go down in history as one of the greatest public health crusaders of all time," scoffs one former FDA official. Others say he doesn't always play fair. "He always manipulates the facts so someone else is the villain and he is the hero," says a disgruntled ex-agency official.

Even close friends wonder if the bearded Long Island native might not do better to spend his time expediting approval for new drugs and medical devices, and fixing other FDA shortcomings. And legal experts question whether the FDA, if it succeeds in labeling nicotine a drug, would have any option other than to ban tobacco entirely as unsafe.

Kessler sees himself as a man with a noble purpose. "By the time a person reaches my age, he is supposed to have lost the urgency of ideals," he explained once in a speech. "It hasn't worked that way for me."

By John Carey, with Susan Garland, in Washington and with Marie Mallory in Atlanta

"The FDA has lost its mind," gasps Gingrich–since the agency is already under attack for overregulation

OW, AFFIRMATIVE ACTION AY HELP WHITE MEN

ıton puts more emphasis on need, less on minority status

t first glance, it looks like a ringing endorsement of affirmative action. But look again. The modest reforms ident Clinton unveiled in a July 19 ch mark a turning point for civil ts. For the first time since their ion in 1965, affirmative action pro- ıs may extend help to economically dvantaged white men, as well as to en and minorities. The shift could ıpt business and academia to fol- suit. "We need to do more to help dvantaged people in dis- ed communities, no mat- vhat their race or gender," on declared.

ıe President gave few fics, but a report released he White House details lan. Under pressure from ıt Supreme Court rulings ing affirmative action, on wants to offer whites ss to an array of federal rams, ranging from uni- ty scholarships to federal racts. "It's an opening oit and reflects some new ing," says Paul R. Huard, lobbyist for the National ciation of Manufacturers.

AMBLE. Republicans see President as too tied to ing programs and don't he actually will alter the ct of affirmative action in workplace. "President on believes that in the of their government, Americans should be equal than others," rails Senator Gramm (R-Tex.).

P lawmakers haven't backed off plans to kill affirmative action for . But Clinton is gambling that his est changes—including new prefer- s for whites—will sell with the pub- Mend it, but don't end it," he said. is solution: Give breaks to small panies—even those owned by white —who locate or offer jobs in blight- eighborhoods. And Clinton urged Education Dept. to reexamine schol- ps for minorities. The intent: Award ıcial aid to the first members of lies who attend college, regardless ıce. "That will be a major change," William E. Kirwan, president of University of Maryland.

Advocates for women and minorities see a disturbing shift in the move to extend preferences to whites. They think it is a betrayal of affirmative action's original intent. "The sentiment does seem to be shifting toward need rather than race," frets Reginald Wilson, racial issues expert at the American Council on Education.

Such critics worry that Clinton's moves will, in the end, simply gut affirmative action. After all, the Administration still must narrow its programs according to strict new standards laid out in a June 12 Supreme Court decision holding that the government must prove past bias before it can enact programs granting preferences. Universities are rethinking affirmative action, too. The University of California Board of Regents, for instance, is debating whether to scuttle its minority admissions policy altogether.

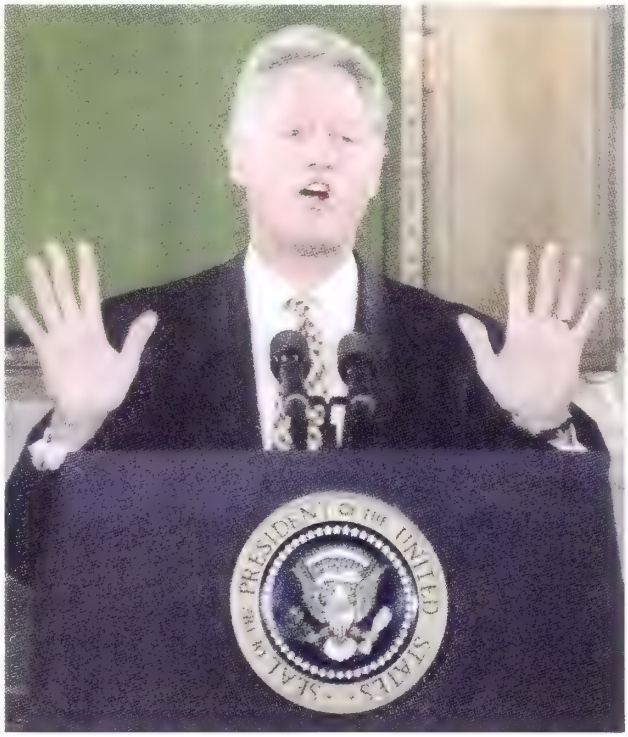
Companies large and small may welcome some changes. They already see gold in the Administration's "empowerment contracting" program to give breaks for federal contracts to companies operating in distressed neighborhoods. If companies "realize that they can win federal business as a result of location, they'd move tomorrow," says Jeffrey Finkle, executive director of the National Council for Urban Economic Development. Adds Patty DeDominic, CEO of Los Angeles-based PDQ Personnel Services Inc.: "It's smart business to give such incentives to companies."

Small companies also are cheering White House recommendations to whittle down the numbers of women and minorities who can benefit from federal contracting breaks. The Administration wants minority and female entrepreneurs to graduate from sheltered government programs once they become strong enough to compete on their own. "That's a step in the right direction," says Joyce Newman of Reed & Reed, a white-owned construction firm in Woolwich, Me. "Subcontractors that have to compete with [minority] firms are really hurting."

A FUNDAMENTAL SHIFT

"We need to do more to help disadvantaged people in distressed communities, no matter what their race or gender"

— BILL CLINTON



Big companies could benefit from White House plans to free them from bureaucratic red tape. If they establish good hiring and promotion records, they would get fewer reviews from the Labor Dept. "If you have an effective program, it's burdensome to go through reviews every two years," says David M. Sampson, vice-president for diversity at Marriott International Inc.

Call it the 5% solution. While 95% of Clinton's recommendations back affirmative action as it is, his modest innovations may lead to fundamental change. The debate now: Will the change be for the better?

By Catherine Yang and Susan B. Garland in Washington, Michele Galen in New York, and bureau reports

WILFREDO LEE AP/WIDE WORLD

STRATEGIES

MISSION IMPROBABLE AT KIWI AIR

Can new pilot Russell Thayer save an airline flying on fumes?

Veteran airline executive Russell Thayer III has gone down in flames before. He was president of Braniff Airways Inc. prior to its bankruptcy filing in 1982. And he tried to right beleaguered Pan American World Airways Inc. before its 1991 crash landing. Now, at 72, he has emerged from a six-year retirement to rescue struggling Kiwi International Air Lines.

Thayer walked into Kiwi's corner office on July 12, the same day Danny Wright, Kiwi's third chief executive in five months, walked out. In a Securities & Exchange Commission filing that day, Kiwi admitted it must find an outside investor willing to pony up $15 million in cash to survive the third quarter. And its auditors, Arthur Andersen & Co., expressed "substantial doubt" that Kiwi can continue as a going concern.

THAYER: SEEKING AN INVESTOR WILLING TO GAMBLE

Not much cash. No credit. Assets pledged. Kiwi's "a bankruptcy candidate," says one consultant

AN IFFY SITUATION. The fledgling carrier, which has lost $40 million since its 1992 founding, has only $4 million in cash on hand, no credit lines available, and all its major assets pledged. "Kiwi is a pending bankruptcy candidate. End of subject," says Michael Lowry, president of Aviation Forecasting & Economics. Kiwi admits in SEC filings that bankruptcy is a possibility.

Enter Thayer. His plan: to attract investors to shore up finances at Newark (N.J.)-based Kiwi and then to take the carrier public, perhaps as soon as yearend. The pitch? The airline's second-quarter profits of $1.7 million represent a permanent improvement over 1994's dismal $25 million in losses.

To make sure he's right, Thayer plans to trim Kiwi's flight schedule and to push ticket prices higher. And he will try to boost morale at the employee-owned airline, where workers are shell-shocked by the February ouster of founder Robert Iverson, as well as the subsequent turmoil in the airline's executive suite.

Veteran Thayer-watchers think he is up to the task. "He's one of the most respected people in the business," says Michael Boyd, president of Aviation Systems Research Corp. One advantage that's Thayer's: Because of his years in the industry, he has the contacts to lure experienced CEO candidates. Thayer says he already has talked to "middle manager" refugees from the downsizing of American Airlines Inc.

Finding an equity investor could prove tougher. Pilots don't want to dilute their equity or wind up working for another Frank Lorenzo, who steered Eastern Air Lines Inc. to its death. "The pilots are coming around, but it has taken two-and-a-half years," says Thayer. "There's an investor out there who will want to take this gamble." Thayer concedes no one has stepped forward yet.

Gamble is the operative word. Kiwi's second-quarter profit looked good on paper. But here's the fine print: On Mar. 8 the carrier struck a deal to defer more than $800,000 in lease payments on eight of its 15 aging Boeing 727 aircraft. Lessors granted "rent holidays" on four others. The airline is one of the industry's slowest bill-payers, running more than 90 days late on nearly half of its $6 million in trade debt as of Mar. 31, according to its SEC filing. Kiwi also owes $3 million to the Internal Revenue Service and $1 million to the Port Authority of New York & New Jersey.

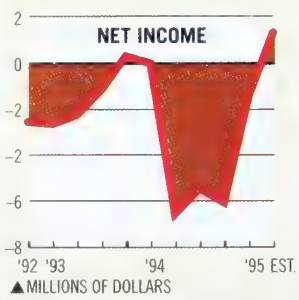
FARE WARS. Not long ago, Kiwi's financial woes would have landed it in good company. No longer. The industry, led by turnarounds at high-cost carriers Delta, American, and United, is having its best year since 1989. Wall Street analysts expect record airline profits of $700 million in the second quarter, nearly five times last year's level. Credit goes to fare-war free planes flying 66% full, according to the Air Transport Assn. Kiwi lags, at only 53% of capacity.

Kiwi wouldn't look so bad if fellow startup ValuJet Airlines Inc. and low-fare trendsetter Southwest Airlines Co. also were struggling. But ValuJet has turned profits almost since its October 1993, launch, and Southwest has smoothed some recent profit turbulence. The operations comparisons hurt, too. Kiwi flies from Newark, Atlanta, and Chicago to Orlando, Tampa, and West Palm Beach in Florida—prime ValuJet territory. And Southwest just announced plans to serve Tampa, Fort Lauderdale, and Orlando this winter from Baltimore, pressuring Kiwi's pricing.

Thayer had better move fast. Kiwi's cash won't hold out for long. This airline, named for New Zealand's flightless bird, could soon find its own wings clipped.

By Susan Chandler in Chicago, with bureau reports

KIWI'S CHOPPY FLIGHT



DATA: AVITAS, COMPANY REPORTS

PUBLISHING

ONWARD, CHRISTIAN PUBLISHERS

As sales soar, mainstream players are jumping in

In her steamy heyday, Francine Rivers penned *Rebel in His Arms* and 11 other romance novels that sold a total of 3.5 million copies. But after finding God in 1986, she lost the will to churn out tales of heaving breasts and forbidden passion. Instead of stories about men, women, and sex, the born-again Christian now writes of "men, women, and God," as she says.

It turns out to be a formula with more than a prayer of success. In June, Rivers' fourth inspirational romance, *As Sure as the Dawn*, sold 29,000 copies, a record first-month fiction sale for Tyndale House Publishers. Rivers won't reveal her take from the title, but says her market is "very lucrative."

No kidding. Evangelical publishing, the domain of churchgoing heroes and ultratame plot lines, is more than hot. The nation's 2,500 Christian bookstores expect sales of $3 billion this year, up from $1 billion in 1980. Sales to those stores by distributor Ingram Book Co. were up 28% last year alone. At Thomas Nelson Publishers, net income for the fiscal year ended Mar. 31 rose 29%, to $11.7 million.

BABY BOOMERS. Credit the surge to the rise of the religious right—or to the "approaching millennium, which creates a spiritual crisis," says Phyllis Tickle, *Publishers Weekly* religion editor. Most of all, though, the market has been driven by baby boomers discovering—or rediscovering—religion. "It's Christianity Lite. They want books with family values that are fast, funny, and not too preachy," says David R. DeBusk, a Littlefield (Tex.) book dealer, one of 12,000 people who attended the Christian Booksellers Assn. convention in Denver in mid-July.

Such readers have devoured historical novels by Brock and Bodie Thoene, a husband-and-wife team that signed an 11-book contract with Thomas Nelson in 1993 for about $11 million. They've bought 5.2 million copies of thrillers by Frank E. Peretti, whose 11-book contract with Word Publishing also is worth millions. And they shop at Barnes & Noble Inc., which has boosted the number of evangelical titles it stocks by 35% in two years. Starting in August, readers in Birmingham, Ala. can head to the first Christian superstore, the 250,000 square-foot Disciples.

Christian publishing has been around since Matthew, Mark, Luke, and John. But only in the past decade has the industry mushroomed to "children's books, anthologies, historical novels, self-help, parenting, and even business books, all God-centered," says agent Jane Jordan Browne, who represents Rivers. And secular publishers haven't missed the trend. At the booksellers' convention, Simon & Schuster, Harcourt Brace, and Little Brown were among the 140 publishers with booths. "Every publisher is taking a crack at it," says Thomas R. Grady, vice-president of HarperSanFrancisco, a religious imprint of HarperCollins Publishers Inc.

BIBLEMAN: *The CBA convention drew 12,000 people*

REASSURANCE. HarperCollins also owns the Christian-oriented Zondervan Publishing House, publisher of Dan Quayle's *Standing Firm*. And in September, Patricia Klein, Waldenbooks Co.'s buyer of religious works, will start as a senior editor for Christian books at HarperSanFrancisco. Last fall, Ballantine Publishing Group, a division of Random House Inc., started Moorings, which expects to issue 2[illegible] Christian fiction and nonfiction books each year.

Secular publishers could face some resistance from readers. "Evangelical readers want to make sure the book will be all right for them," says Thomas Cahill, director of religious publishing at Doubleday & Co. "They want an imprimatur, a [reassurance that] the work is free from doctrinal error."

But big booksellers will push hard to win such readers' lucrative confidence. For the next several decades, after almost publishers prophesy the evangelical market will keep swelling. How to manage that growth? They can look to Hyperion Press Inc.'s *Jesus CEO* for advice. It's No. 8 on BUSINESS WEEK's best-seller list.

By Sandra Dallas in Denver

Untamed Passion

An excerpt from The Bluebird and the Sparrow, *the top-selling Christian fiction title in July:*

There was silence. His grip on her hand tightened. He said, "So—if you now know Berta—as I have always known Berta—you must know that she is a pretty special person." His voice was soft.

She looked at him, and for the first time her eyes spoke a promise.

He seemed to hold his breath.

"Do you think the—the new Berta could find a place for me—in her life?" he asked softly.

Berta drew in her breath. That he could still care after all of her distance, all her rebuffs, amazed her. Her eyes filled with tears. She could only nod her head, her gaze still holding his.

For a long moment he looked at her, and then he drew her close.

EDITED BY KEITH H. HAMMONDS

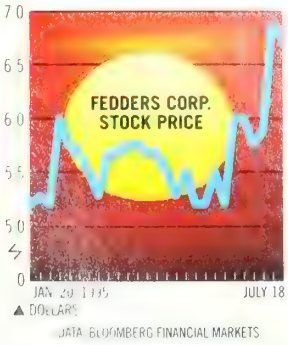
TOUGH TIMES AT THE *L.A. TIMES*

IN THE TIME IT TAKES OTHERS to find the corporate cafeteria, Mark Willes has engineered wholesale pandemonium at Times Mirror. On July 14, after just six weeks as CEO of the troubled media giant, Willes announced the closing of respected but money-losing *New York Newsday*. And the company's flagship *Los Angeles Times*, battered by Southern California's anemic economy and several strategic missteps, will cut as many as 700 positions by the end of the year, according to a July 19 internal memo. "The word is that every department will be hit," says one staffer. "People here see a real bottom-line attitude taking over." No wonder: Times Mirror reported a 19% drop in second-quarter earning, to $26 million.

CLOSING BELL

FEDDERS' HEAT

When it snows, we buy shovels. When the mercury hits 100, we rush to Sears and drop $500 on an air conditioner. So it was when a mid-July heat wave wrapped the U.S. in sweat. Fedders, the leading U.S. maker, ramped up to 10,000 units a day, a rise of 25% over June's output. And its shares jumped 17% over the 5-day blast, cresting at 6.875 on July 17. Sales and profits are up 50% over '94, and the stock is up 68% since last October.



BOSTON CO.'S FLYING INVESTORS

IT'S THE SORT OF ASSET flight that fills money managers' nightmares. Four months after a mass exodus of top executives at Mellon Bank's Boston Co. asset-management unit, investors have pulled out $11 billion, or 42%, of its total assets. In April, Boston's chief investment officer, Desmond Heathwood, quit in a dispute with Mellon management over autonomy and pay, taking 13 top investment pros with him. On July 18, Mellon moved to stanch the hemorrhaging, hiring as Boston Co.'s new CIO Alexander "Toby" Webb III, former president of Fidelity's $27 billion trust unit. Webb says he wouldn't have taken the job if he thought Mellon would interfere.

A NEWT NOD FOR THE BELLS

THE NATION'S LONG-DISTANCE companies are scrambling to kill a telecommunications-reform bill that could make it to the House floor as early as July 26. Just a few weeks ago, AT&T, MCI, and Sprint ran television ads backing the bill. Not anymore. After an intense lobbying campaign, the seven regional Bell companies persuaded House Speaker Newt Gingrich to alter the legislation in a way that would make it easier for them to enter the $70 billion long-distance business. Now the long-distance cabal, led by its chief lobbyist, former Senator Howard Baker, wants the bill changed—or killed. The legislation will probably still pass, but it's no longer a slam dunk.

HEADLINER: MICHAEL SPINDLER

CAN APPLE GROW UNDER ALL THAT GLASS?

On Aug. 24, the Windows 95 *tsunami* will be upon us—and upon Apple Computer, the biggest potential victim of Microsoft's new operating system. Is CEO Michael Spindler worried? Nah. "A tidal wave doesn't overwhelm you if you get out of the way in time," he says.

Spindler says Apple will gain market share this year after losing as much as a percentage point in 1994. His plan: to ease out of commodity markets and focus on the creative and education sets that have been Apple's stronghold. "Windows 95 will create enough hype to get people into the stores, and we intend to capture them at the door," Spindler says. Maybe, but it will take some marketing panache. Apple has made only a few youth-oriented ads, and it plans an infomercial later this year. To help relations with retailers, Spindler is set to scrap a return policy that makes them eat Macs returned by unhappy buyers.

Will it be enough? "They might hold their own if they make a lot more product," says one retailer. "But with all the hype behind Windows, I doubt it."

By Peter Burrows

ONE BIG, HAPPY FAMILY

THE NEW FAMILY VALUES monolith has arrived. Reader's Digest Assn. and Meredith will join in a strategic alliance giving Reader's Digest rights to Meredith's massive database. The deal creates an intimidating combined mailing list of 150 million names. Reader's Digest will sell its books, CD-roms, and videos to Meredith customers and push such Meredith titles as *Better Homes & Gardens* and *Ladies' Home Journal* through its network.

A COURT UPHOLDS TECHNICOLOR'S TAKE

IT WAS A CLOSELY WATCHED case in the shareholder-rights world, and shareholders did not fare well. Capping a 12-year legal battle, the Delaware Supreme Court upheld a lower court ruling that threw out a suit against Technicolor, the company acquired in 1983 by billionaire Ronald Perelman. Cinerama, a 4.4% shareholder of Technicolor, charged directors of the company with failing to get a fair price when they sold to Perelman. But the court opted not to punish the directors for not actively searching for a higher bidder. "This does make it somewhat harder to hold directors liable," says Columbia law professor John Coffee.

ET CETERA . . .

- The House passed legislation that would cut off further aid to Mexico.
- IBM's Ed Zschau is resigning as head of the company's disk-drive operations.
- Procter & Gamble submitted a cure for peptic ulcers to the FDA for evaluation.
- Olympia & York placed a World Financial Center unit under bankruptcy protection.

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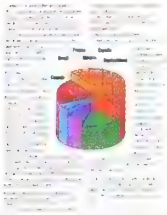

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TED BY OWEN ULLMANN

ND THE BELTWAY OMINEES ARE...DOOMED

os Angeles attorney R. Samuel Paz seemed a shoo-in for a federal judgeship last fall. Bolstered by a high American Bar Association rating and a pile of recommen-ns, Paz seemed assured of confirmation. But that was be-the Republican takeover of Congress. When conservative ps attacked Paz's record of representing clients in brutal-ases against police, GOP Senators balked. President Clin-dropped the nomination.

z isn't the only Clinton job-seeker felled in the ideolog-crossfire between the Democratic White se and the GOP-run Senate. Though it's still onths to Election Day, Clinton's opponents already targeting nominees ranging from the al bench to the Federal Reserve to the Na-l Labor Relations Board (NLRB). More casu-s are sure to come, threatening to make on a lame duck prematurely.

is unusually early GOP sniping signals dan-for all future Presidents, who may see their nees held hostage to an ever more shrill partisan confirmation ordeal driven by a de-for revenge. Ask Robert Bork, Clarence nas, and Zoë Baird. "We're like the Middle —an eye for an eye," laments GOP lobbyist C. Korologos, who counseled Bork during appeals court judge's failed bid to become a eme Court Justice in 1987. "It's out of control."

TREASURY'S SUMMERS: *Targeted by D'Amato?*

FLAGS. At first glance, the flap over Clinton's candidates ars contained. After all, the Senate has confirmed most of ominees—approving 27 between Memorial Day and the 4th recess. Still, the GOP is raising red flags, and the e House fears many of the 130 nominations awaiting con-tion won't be approved before 1996 election-year jockey-makes it difficult to get anyone confirmed. "We're con-ed whether the Senate will have time to conduct hese hearings before the end of the year," frets one onite.

Topping the troubled list is Treasury Under Secretary Lawrence H. Summers, nominated for the department's No. 2 spot. Senator Alfonse M. D'Amato (R-N.Y.), a member of the Finance Committee that handles the nomination, hints he may block Summers because of his role in the Mexican rescue plan. D'Amato accuses Summers of covering up the depth of Mexico's problems before the Administration cobbled together a $20 billion bailout. Summers and other Treasury officials "were not forthcoming to Congress and the American people," D'Amato charges.

BACKFIRE? Another problem spot for Clinton: filling Fed vacancies, normally a run-of-the-mill matter. In a rare move, the President backed away from naming Treasury economist Alicia H. Munnell to the board of governors after Senate Republicans panned her as too liberal.

Republicans also aim to tie Clinton's hands on other Fed vacancies. The GOP may force Clinton to renominate Chairman Alan Greenspan, a Republican, whose term expires in March. Vice-Chairman Alan S. Blinder, a Democrat, would likely depart when his term expires in January if he doesn't get the chairmanship.

Even lower-profile posts are being blocked. The White House may back off naming Sara M. Fox to the NLRB because the aide to Senator Edward M. Kennedy (D-Mass.) is too left-wing for GOP tastes. Another District Court nominee, California jurist Judith McConnell, saw her nomination fizzle after conservatives assailed her for awarding custody of a child to the gay partner of the child's deceased father rather than to the child's mother.

Having forced Clinton's legislative agenda to a halt, the GOP is now bent on crimping his remaining power to fill key government posts. But undercutting Presidential prerogatives carries a price—as the GOP may learn the next time it holds the White House and the Democrats control the Senate.

By Susan B. Garland

CAPITAL WRAPUP

IEND OR FOE?

Iouse Government Reform & Over-ht Committee Chairman William F. nger Jr., Commerce Secretary Ro-d H. Brown's chief nemesis in Con-ss, may ultimately save Brown's ency. Clinger, who has accused own of illegally profiting from pri-e business deals, is the House GOP nt man for dismantling Commerce. t after quiet pleas by Corporate nerica to streamline—not kill—the ency, Clinger is now inclined to intain a leaner operation.

FLAT-TAX BACKTRACK

▶ House Majority Leader Richard K. Armey will drop one of the most controversial suggestions from his flat-tax plan—ending tax withholding from workers' paychecks. The Texas Republican wanted to force taxpayers to confront the cost of government by writing a monthly check for Uncle Sam's tribute. But the plan would have required hordes of clerks. Besides, says an Armey aide, "the public didn't respond. People seem to like the convenience" of withholding.

FORGET THE NO. 2 PENCILS

▶ Change at the hidebound Pentagon comes slowly. But Defense Secretary William J. Perry is starting to make good on his pledge to reform Defense Dept. dealings with contractors. So far, officials have reviewed 105 of the 1,600 military procurement standards and have decided to junk or modify 90% of them. Among the regs canned: requiring contractors to bring a stenographer with three sharpened No. 2 pencils to technical reviews—even if the notetaker uses a laptop.

RILEY BLOOM SABA

TRADE

HOW MERCEDES TRUMPED CHRYSLER IN CHINA

When the Americans grew frustrated, the Germans dangled technological goodies

For Mercedes-Benz, it has been a roller-coaster ride for business in China. A year ago, the German carmaker's growth prospects in the huge market looked bleak. First, it lost an important venture to produce diesel engines in northern China to a German rival. Then, Mercedes executives learned in August that the Chinese had chosen Chrysler Corp. for the $1 billion minivan deal that Mercedes was striving to win. "It was a low point," recalls Bernd Gottschalk, head of Mercedes' commercial vehicle division.

COURTING JIANG: *German VIPs show off a bullet train loaded with Daimler technology*

Now, they're celebrating in Stuttgart. After touring a Mercedes plant on July 12, Chinese President Jiang Zemin handed the hotly contested minivan deal to the German auto giant, snubbing Chrysler and placing Mercedes among the privileged few in the world's most important emerging market. As Jiang rode in a replica of the first Benz car ever made, Daimler Benz Chief Executive Jürgen E. Schrempp declared "a major success for both sides."

CAUTIONARY TALE. Souring relations between Beijing and Washington over Taiwanese President Lee Teng-hui's May visit to the U.S. may have clinched Beijing's decision. But as details of the talks emerge, it's clear that other factors, such as technology transfer and export terms, were crucial.

Indeed, the story of the tangled minivan negotiations reveals just how tough it is for Western companies to do business with the Chinese. China is playing the world's biggest auto makers off against one another—a tactic that extends to such industries as telecoms, electronics, and aviation. It is trading access to its market for pledges from General Motors, Volkswagen, Ford, and others to transfer everything from auto-part technology to R&D.

This practice presents a dilemma to the multinationals: How deeply should they cooperate in key industries with a country that has weak protection of intellectual-property rights and lofty ambitions of its own?

Chrysler and Mercedes-Benz, it turns out, answered that question differently. When Beijing demanded that Chrysler transfer all technology for its prize, all-new NS minivan to Beijing—and even allow China to sublicense the van design and sell it in other Asian countries—Chairman Robert J. Eaton balked. Th provided an opening for Mercedes ar its parent company, Daimler Ben which is pledging to put China on th map in industries ranging from passe ger aircraft to high-speed trains.

The minivan deal was a high-stak game from the start. In early 199 when China first invited bids for a joi venture to make 60,000 vans an 100,000 gas and diesel engines in Guan dong province, officials let it be know that it would be the last major vehic project in China until the year 200 Since China already had set up car joi ventures with Volkswagen and Peugeo they hinted that the next big deal woul go to the U.S. or Japan.

Chrysler snapped to it. It wanted t widen the bridgehead provided by i 70,000-unit-a-year production of Jee

erokees, which start at $16,700, and itary-style Jeeps through its 42% ke in a joint venture in Beijing. Plans for boosting Jeep output to 200,000 ly next century.

Meanwhile, Mercedes' new chief exec-ve, Helmut Werner, needed a big win Asia. Beset by Germany's strong rk and sky-high labor costs, he was er to implement a new strategy to st sales as well as to tap low-cost la- and supplies in the booming region. e loss of the diesel engine deal in na dealt Mercedes an unexpected w. The company's executives had ugly figured their reputation for engi-ring excellence would ke landing the contract reeze.

So, as visiting Chinese mier Li Peng signed diesel deal with rival on a trip to Bonn in y, 1994, Gottschalk, rcedes' lead negotiator h the Chinese, knew had to do something, and fast. He nediately called together his top ategists for brainstorming sessions Mercedes' Stuttgart headquarters. ey decided they could meet Chinese hes to split minivan production be-en plants on Hainan island and an-er in Zhanjiang, a coastal town in thern Guangdong, some 40 miles ay. Engineers from Ford, also invited bid on the minivan project, had con-ded the scheme was uneconomical.

f Mercedes was to have a real nce, its tactics had to change, too. tschalk scaled back Mercedes' big otiating team to eight people and red its bargaining style. Says Gotts-lk, 52, a former political scientist: ere would be no more arrogance and more pushy negotiations. Instead we l, 'Let's see what Asia needs.'"

OSE JEEPS? Little did Gottschalk w that at the same time, Chrysler eved it was closing in on the deal. early as December, 1993, Chinese cials had indicated to Chrysler nego-ors that they were the only ones in race. In early July, 1994, after a 35- marathon bargaining session, the gh details were on paper: Chrysler uld invest more than $1 billion to d vans, engines, and transmissions. Eaton wasn't completely satisfied n some technical details. But he was cked when Chrysler officials discov-d counterfeit versions of its Jeep ising the streets of Beijing. Chinese ates had copied the Jeep body and ck them on "God-knows-what chas-" Chrysler President Robert A. Lutz l BUSINESS WEEK in January. Even re disturbing, Lutz recalled, was the nese response when Chrysler com-plained: "We're developing an auto in-dustry, and you should help us.'"

Worrying that China could become a global source of counterfeit parts, Eaton insisted that Beijing guarantee in writing it would protect designs. The Chinese agreed, and the signing ceremony for the deal was set as the high point of U.S. Commerce Secretary Ronald H. Brown's August trip to Beijing.

But to Eaton's dismay, the Chinese chose that time to unveil a slew of startling new demands. They insisted Chrysler invest the entire $1 billion up front, rather than in phases as previously agreed. China also wanted to export Chrysler's vans and components—even in markets where the company has its own distribution—without paying licensing fees. On top of that, Chinese negotiators wanted to delete intellectual-property protections from the contract, which could allow knockoff artists to copy Chrysler's components with impunity.

LAST STRAW When Chrysler insisted on guarantees against counterfeiting its parts and designs, the Chinese agreed—and then reversed themselves

Flabbergasted, Eaton flew to Hong Kong, leaving his negotiators to salvage the deal. But the Chinese, who apparently thought Chrysler would come around to avoid embarrassing Brown in Beijing, didn't budge. On Sept. 3, the frustrated Chrysler team returned to Detroit.

For Gottschalk, Chrysler's troubles proved to be a godsend. Chinese officials asked Mercedes to resubmit its bid. They also asked Ford to make an offer. Gottschalk sent his team to Beijing, where they learned the standoff with Chrysler had changed the picture. Mercedes promised that it would eventually base the entire van production in China, set up technology centers, develop a components industry, and let the Chinese export 12,000 units a year.

Mercedes had much less to lose than Chrysler, for whom minivans are its biggest seller and top money maker. For Mercedes, minivans are a new, low-volume business. The model it proposes to build in China, the Viano, will begin production in Spain in 1996. Indeed, with its high German labor costs, Mercedes could use a low-cost Asian production base.

By March, discussions with Mercedes were again in full swing. Further dooming Chrysler's chances, just two months later, was the outrage in Beijing over President Lee's trip to the U.S. In one last encounter, Chinese officials summoned Chrysler officials to Beijing on June 20. Mercedes' proposal lay on the negotiating table. The Chinese claimed both Ford and Mercedes had agreed to let the mainland partner sublicense their technology at will and asked Chrysler to do the same. Chrysler's response: No deal.

Mercedes figured it would take several more months to hammer out an agreement. But Beijing apparently speeded the pace so that President Jiang could sign something big during his state visit to Germany in July. While rewarding Bonn, he could also show Washington that the political tensions could harm U.S. business in China.

PYRRHIC VICTORY? A question nags: Was it a good deal for Mercedes? Full details of the agreement haven't been revealed, but Chrysler execs suspect Mercedes is naive to trust China with its technology. Responds Gottschalk: "You have to face risks to get results."

What's more, Mercedes still has months of negotiating ahead before it can seal its deal. Technically, it only has signed a "basic agreement" to be "exclusive partner" and begin a feasibility study. That is not much further than Chrysler was with the Chinese in 1993.

SPY PHOTO OF A VIANO

CHINESE LESSON If Beijing wanted to infuriate Clinton, its timing was perfect

By John Templeman in Bonn and David Woodruff in Detroit, with Dexter Roberts in Beijing and Pete Engardio in New York

TAIWAN

TAIPEI IS TASTING THE MAINLAND'S WRATH

Beijing is blocking Taiwan's economic efforts–and rattling sabers

After decades of banning transportation links with China, Taiwan was all set to allow ocean-going freighters from the mainland to join the stream of ships from Hong Kong flowing in and out of its southern port of Kaohsiung. With indirect trade between the two countries booming, Taiwanese companies have long been clamoring for such a move. But Beijing officials, angered by Taiwan's latest attempts to gain international recognition, won't allow the plan to go forward. "Our facilities are all in place," says a dejected David Lai, a Kaohsiung port official. "Only political problems keep us from getting it going."

The sudden souring of relations adds to growing doubts in Taiwanese executive suites about doing business on the mainland. Already squeezed by rising costs on their China ventures, many executives were thinking about avoiding risk by investing in friendlier Southeast Asian nations. "Most larger companies are waiting to see how the political situation changes before putting more into China," says Kao Charng, research fellow at the Chang-Hua Institution for Economic Research, a Taipei think tank.

VEILED THREATS. Right now, the situation doesn't look good. High-profile trips abroad by President Lee Teng-hui and other Taiwanese officials and continuing efforts by Taiwan to gain diplomatic recognition have led to veiled threats by Beijing to use its military against the island. On July 19, Taiwan's stock market dropped 4%, after China said it would conduct missile tests in the East China Sea—north of the island. "The mainland Chinese government seems ready for action," says Chih-yu Shih, a political scientist at National Taiwan University.

Business is caught in the crossfire, with Beijing calling off talks on investment protection for Taiwanese companies and other economic issues. As a result, few new deals are being done. "Every decision has to be postponed," says J. T. Wang, president of Acer Sertek, a marketing arm of computer maker Acer Inc. His company has delayed an aggressive promotional effort planned for major Chinese cities.

COMBAT FROGMEN: *China "can't bully us," says a Taiwanese official*

> In the race to succeed Deng, no Chinese politico wants to be seen as soft on Taiwan

Even before Lee's U. S. trip prompted such a harsh response from Beijing, many Taiwanese executives were upset by the treatment they were receiving. In May, the Chinese angered Taiwanese companies by suddenly enforcing the collection of value-added taxes of 17% on imported raw materials. Around the same time, new tariffs on textiles and plastics increased import fees for many Taiwanese manufacturers by 27%. The higher taxes, along with a 50% jump in labor costs in China's coastal provinces are hurting profits.

Faced with such problems, Taiwanese companies are expanding elsewhere. Their investment in Vietnam and in the six members of the Association of Southeast Asian Nations quadrupled last year and now totals more than $24 billion, nearly as much as their investment in China.

"PRAGMATISM." Taipei is encouraging more such ventures. When CIS Technology Inc., a computer-peripherals maker in suburban Taipei, was deciding last year where to set up a $12 million floppy-disk factory, it didn't seriously consider China. "The quality of workers there isn't so good," sniffs David Liu, the finance manager. Instead, CIS chose an industrial zone in Vietnam being developed by a company run by Taiwan's ruling party, the Kuomintang.

To be sure, China is still part of the long-term strategy for many of Taiwan's biggest companies. One of the largest investors in the mainland, food-and-beverage giant President Enterprises Corp., is forging ahead with plans to expand manufacturing throughout China. Many companies have become used to the uncertainty of relations across the Taiwan Straits. "Taiwanese businessmen are the epitome of pragmatism," says Nick Chen, Taipei branch manager for Perkins Coie, a U. S. law firm. "In the end, they'll be able to subordinate [political worries] to economic interests."

But the current tensions may last much longer than earlier ones. In the struggle to succeed Deng Xiaoping, no Beijing politician wants to be seen as soft on Taiwan. And with Taiwan's first-ever presidential elections set for early next year, the Taiwanese government isn't backing down. Beijing "can't bully us around," says government spokesman Jason C. Hu. With that kind of bravado from Taiwanese leaders, ships from the mainland may not be heading to Kaohsiung harbor for a long while.

By John Winzenburg and Bruce Einhorn in Taipei

TED BY STANLEY REED

ALESTINE'S PEACE DIVIDEND OESN'T INCLUDE PROSPERITY

he Middle East peace process is finally moving. Palestine Liberation Organization chief Yassir Arafat has begun to impose law and order on the tumultuous Gaza Strip. Israelis and Palestinians will soon ink an agreement for stinian elections and an Israeli troop pullback from West k towns. Syrian and Israeli military commanders recent-eld substantive talks on security arrangements.

till, the Clinton Administration and the Middle East play-are well aware that any peace agreements will be ex-nely precarious without an economic payoff—in a region , except for Israel, has seen hard times since the end of oil boom of the 1970s. So far, the peace process has ight the Palestinians penury, not perity, and that's hardly an entic-example for Syria as it contem-es peace.

aza has been pounded particular-ard. Although the prospect of a hter future has sparked a small truction boom, the unemployment is approaching 50%, largely be-e Israel is keeping out most Pal-nian laborers.

he U. S., Japan, and other coun-s are pushing hard to turn the on's troubled economies around. A or business conference is set for man in October. The U. S. is hoping to announce plans for billion regional development bank there.

BOOMLET: *Construction is Gaza's one bright spot*

DER CLOSINGS. Both private and public development ef-s have been agonizingly slow, however. One problem has that the Palestinian self-governing authority is only just ing the competence to process projects. More serious lems are the lack of a commercial code and the continuing ical instability. For instance, the Palestinians' best econom-ope is probably export-oriented plants in their areas, but prospect of disruptions from frequent Israeli border clos-is chilling such investments. Mohammad R. Oweis, pres-t of Amtec International Inc., a furniture maker in Greenville, S. C., recently shelved plans for plants in the West Bank and Gaza. The thought of inventory sitting idle "gave me cold feet," he says. He has built some apartment houses and a clothing factory near Nablus in the West Bank.

A lack of viable projects and frustrations with Palestinian authorities have also cut into foreign aid flows to the territories. Samir Abdullah, a top Palestinian economic official, estimates that only $300 million of the promised $850 million in foreign aid was distributed in 1994. The U. S. Overseas Private Investment Corp. (OPIC) hasn't found a single deal to finance, despite a $125 million five-year pledge.

In what could be something of a breakthrough, OPIC is inching toward approving a $36.5 million loan for a flagship project known as the Gaza Marriott Business Center. Marriott International Inc. would run the $80 million hotel on the beach near Gaza City, but the guiding force behind the project is Ziad O. Karram, a hotel developer based in Fairfax, Va. OPIC officials have been squirming over the numbers and the feasibility of a luxury hotel in squalid Gaza. Congressional pressure prompted by a July 13 hearing may light a fire under the bureaucrats.

If OPIC cuts a deal, it could break the ice for other U. S. enterprises. OPIC is sponsoring a business mission to the region soon. More than a dozen American companies plan to go, including Astrum International Corp. in Fisher Island, Fla., which wants to build a bottled-water project in Jericho, and Siguler Guff & Co., a New York money manager that is putting together a $250 million OPIC-guaranteed Middle East investment fund. It seems unlikely there is going to be any boom soon, but these baby steps could set the stage for the kind of investment and economic integration needed to cement the peace.

By Stan Crock in Washington and Neal Sandler in Jerusalem

GLOBAL WRAPUP

ASPIAN JOCKEYING

The political rhetoric is heating up er Caspian oil. Vladimir Shumeyko, airman of the Russian parliament's per house, says Azerbaijan must ck Western companies, including noco, Pennzoil, McDermott, and xxon, out of a $7.5 billion consor-um to develop fields in the Caspian a. "The oil consortium serves the erests of the U. S.," he said.

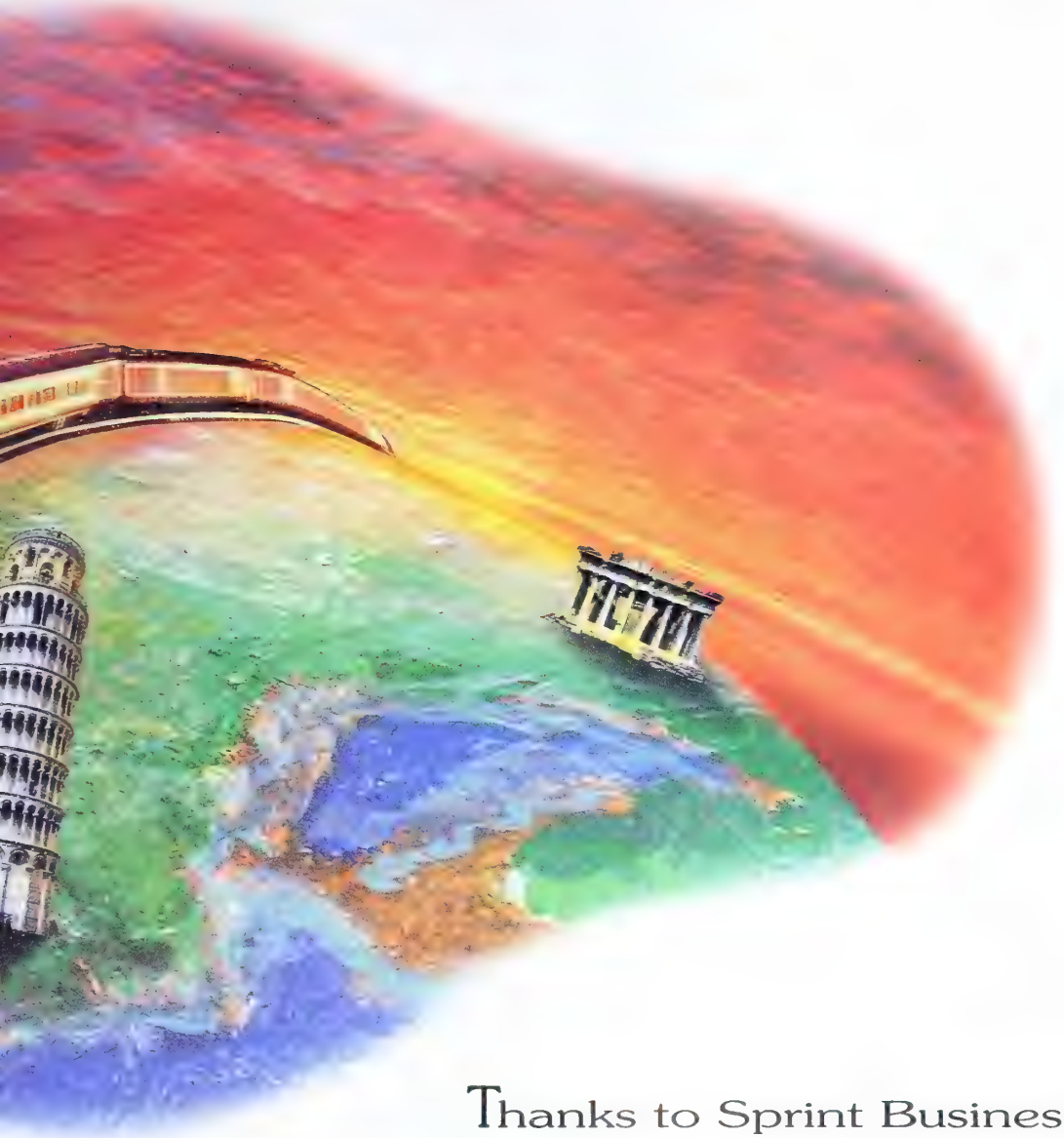
Russian talk is getting tougher because a decision on pipeline routes is nearing. The Kremlin badly wants all pipelines to pass through Russia, so it can control what could become one of the world's most significant oil pools.

But the independent republics are showing interest in a route through Armenia to Turkey being pushed by entrepreneur Roger Tamraz.

MORE TROUBLES FOR GONZALEZ

▶ Spain's securities markets and the peseta fell, after a Catalan faction withdrew its support for Felipe González' Socialist government. The move raises questions about whether González can get his austerity budget through the parliament. He wants to cut the deficit from the current 5.9% of gross domestic product to 4.4% to prepare for possible European Monetary Union. González, who has been damaged by recent corruption scandals, is threatening to call elections in early 1995—a move that could bring the Socialists' downfall.

NUR CHERNI ARA



AIMING HIGH: *Korea's carmakers are making deals for advanced technology as they gear up to join the world's leaders.*

KOREA

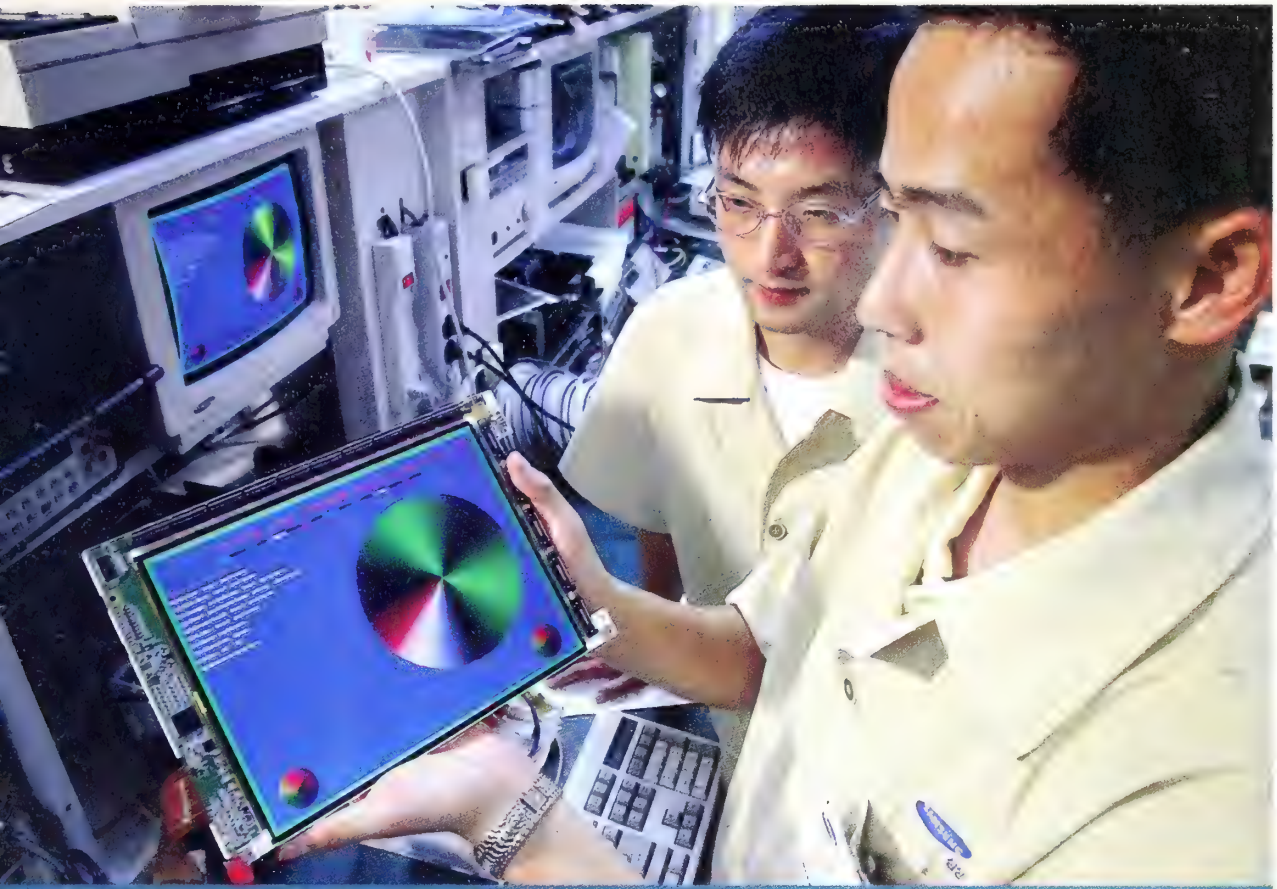
It could well become the first country to establish itself as an advanced industrial power since the emergence of Japan

When K. C. Park worked at IBM in the early 1980s trying to develop liquid-crystal-display technologies he grew frustrated by how slowly the U. S. giant invested in the new field compared with its Japanese rivals. Later, as head of its multimedia unit in 1993, he again became disillusioned at IBM's timidity in betting on the future. So two years ago, Park, at 58, packed in his 27-year IBM career and returned to his native South Korea to become executive vice-president of LG Electronics Inc., a $6.5 billion unit of the group formerly called Lucky Goldstar.

Suddenly, it's a new world. The Korean company is establishing itself in memory chips, liquid-crystal-display screens, and high-speed CD-ROMS. It is discussing partnerships with AT&T and Motorola, and Microsoft founder William H. Gates III and Oracle CEO Lawrence W. Ellison have visited in recent months. On July 17, the company said it would take control of Zenith Electronics Corp. at a cost of $350 million, giving it important new HDTV and multimedia technology.

That's just the start. Over the next five years, LG is planning to spend a total of $2.5 billion to invest in multimedia, display-screen, and information-delivery technologies. Park can hardly contain his excitement. "If we decide we need it, bang!—we go in," he says in an LG dining room high above Seoul. "That's the way it has to be. No nonsense. That's what excites me about Korea."

PHOTOGRAPHS BY GREG GIRARD/CONTACT



JAPAN: *The Japanese thought they were safe from competition in LCD screens. Samsung proved them wrong*

orea is revving up. Having moved years ago from a low- economy where workers churned out shoes, textiles, TVs, and cheap cars, Korea is bidding to become one of world's leading producers of high-tech goods. As it ap- hes that goal, Korea could become the first nation to tru- tablish itself as an advanced industrial power since the gence of Japan. Says Citibank's Korea manager John M. nan: "This country has achieved more economically in a ter period of time than any other try in modern history."

t there's far more at stake than just ness. The Koreans are driven by a e desire to beat Japan, which colo- l the Korean peninsula until 1945. ough the new Korean business and nology push is led by big conglomer- such as Samsung, Hyundai, LG, and voo, the urge to assert Korea's role first-tier power is shared by virtual- e entire society, from government sters and CEOs to auto workers and truction supervisors. With Japan suf- g from a high yen, Koreans perceive toric opportunity to move forward. eir economic drive already is helping ise the level of competition through- Asia, as Korean companies rapidly olish manufacturing bases in China, nam, and Indonesia. U.S. and Euro- companies that are able to ride on a's ambitions will prosper. For Hew- Packard Co., sales in Korea, expected t $600 million this year, now exceed ales in Italy. But others will feel new competitive heat as Hyundai Motor, for example, bids to be one of the world's top 10 auto makers and Samsung Electronics one of the top five electronics giants.

Korea's emergence is all the more remarkable because it is unfolding within rocket range of North Korea's 1 million-man army. The tops of some buildings in Seoul, just 30 miles from a heavily fortified demilitarized zone, host anti-aircraft guns. But the Koreans are increasingly optimistic that they

Where Korea Will Be Strong

AUTOS Korea is already the world's fifth-largest auto manufacturer, and leading producers such as Hyundai, Daewoo, and Kia are doubling capacity by 2000. In addition, a powerful new player, the Samsung group, is spending $5 billion to enter the industry.

SEMICONDUCTORS Already dominant in 4-megabit DRAM semiconductors, Samsung, LG, and Hyundai are expected to stay ahead of Japan in 16-megabit and 64-megabit generations, while also attempting to crack more profitable applications-specific integrated circuits.

INFORMATION PROCESSING Korean makers are attacking Japanese dominance of liquid-crystal-display industry; also gearing up massive production of CD-ROM drives. Will clearly be entering the personal-computer industry with greater force.

TELECOMMUNICATIONS Increasing use of satellites and fiber-optic networks; major players gearing up rapidly in personal communication systems and mobile communications.

NUCLEAR ENERGY Already ranking with France and Japan as one of the world's top three developers of civilian nuclear energy, South Korea is seeking to export its designs to North Korea, China, Vietnam, and elsewhere.

DATA BUSINESS WEEK

BURNING TO SHOP: *Like their counterparts elsewhere, young Koreans have cash and spend it with abandon.*

can gradually knit together a pattern of intra-Korean economics that will make both military confrontation and chaos in the North unlikely. Indeed, maps on sale in Seoul already show a united Korea.

Buoyed by that confidence, Korean companies will spend $48 billion on capital investment in 1995, 56.6% more than last year, according to the Korea Development Bank. Some of that is spilling over into the U. S. In addition to LG's purchase of control in Zenith and Samsung's 40% stake in PC maker AST Research, Hyundai Electronics and Samsung Electronics are spending more than $1 billion a pop on semiconductor facilities in the U. S.

Cover Story

With per capita income crossing the $10,000 level and total GNP of $440 billion, the Koreans will join the Paris-based Organization of Economic Cooperation & Development, the rich man's club, by next year, ranking 11th among the world's top economic powers. They will still be well behind the U. S., Japan, and the largest European economies, but ahead of such countries as Sweden, Australia, and the Netherlands. "By the beginning of the 21st century, our per capita income will have risen to $20,000, with a gross domestic product surpassing $1 trillion," predicts President Kim Young Sam, who visits Washington July 25 to 28. "We have had to strive very hard" (page 64).

STARK REALITIES. As Korea grows up, the very structure of its society and economy are shifting. With wealth filtering into broader segments of the population, the middle class is buying cars, clothes, houses, and appliances. Koreans in their 20s and 30s are spending with abandon, thinking nothing of blowing $700 on a night out at Pharaoh's, a new disco at the Seoul Hilton Hotel. Young families, meanwhile, shell out $100 or more for a day of thrills at the huge indoor Lotte Adventure World. At the same time, environmental, consumer, and women's issues are appearing on the national agenda.

The Korean economic system itself is evolving from an old model characterized by tight collusion between military governments and big industrial conglomerates called *chaebol*. Although the system has been in many ways patterned on Japan's, the government is moving ahead with deregulation of the nation's financial, auto, and telecommunications markets. It is privatizing Korea Telecom and Korea Electric Power Co. while retaining controlling stakes. As the *chaebol* increasingly raise capital offshore and continue to expand internationally, the government's grip on their decisions is also easing. Some Korean elites argue that their country will approach a balance between government and the private sector on par with Germany or France. "The real power of government is declining quite visibly," says Kyung Tae Lee, vice-president of the influential Korea Institute for Industrial Economics & Trade.

To be sure, Korea's first-world yearnings must confront some stark realities. The collapse of a fancy Seoul department store, as well as recent disasters with a bridge and pipeline, illustrate the difficulties the nation's infrastructure is having

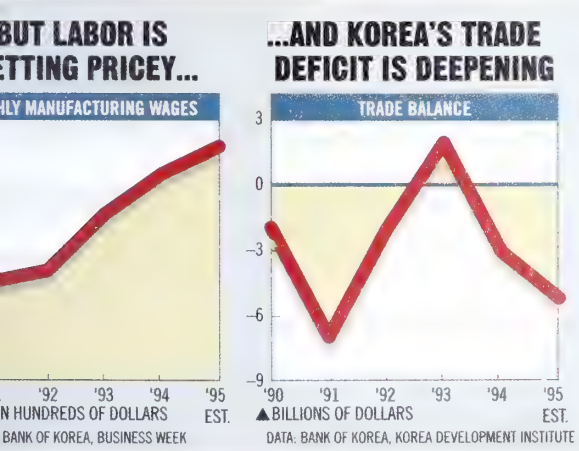
"If you're in a catch-up mode, you just do it and make it work. Koreans are good at that"

ping pace with breakneck growth. The dominance of the *ebol* means small and midsize companies remain thirsty for n and are not as competitive as their counterparts in, Taiwan. Partly as a result, Korea's large manufacturers st turn to the U. S. and Japan for capital goods and com-ents, creating a $5 billion trade deficit this year.

ntrospective and self-critical, Koreans are intensely aware heir shortcomings. Some of their new investments, partic-rly in the overheated auto industry, are likely to fail. But balance, most foreign analysts, bankers, and executives in ul argue that the Koreans stay on course. Despite the astructure disasters, cranes erecting towering new build-s throughout Seoul, and satel-cities of 500,000 people each springing up outside the cap-in former rice paddies. Huge jects, such as a high-speed n linking Seoul with Pusan, proceeding.

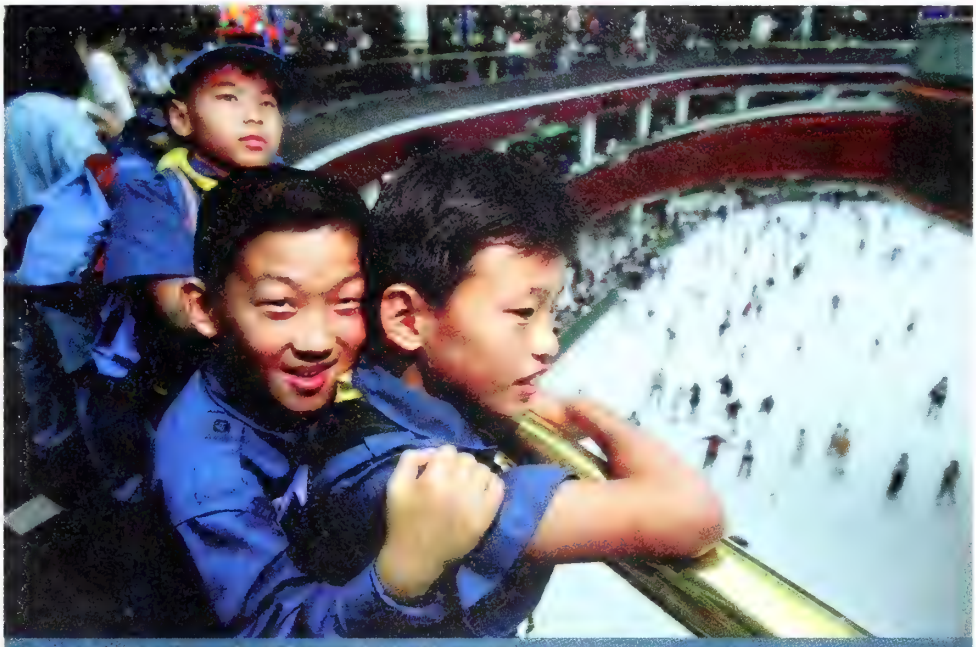
W WAVE. Important for contin-economic progress, Korea's cent democracy appears to e crossed the point of no re-n from military influence. The dent radicalism so common campuses in the 1970s and 0s has given way to the pur-of advanced degrees, new s, and good jobs. Thanks to idly increasing wages, mili-t unions also have lost much their appeal, leaving only ll pockets of radicalism.

Greatly accelerating the push ard a New Korea is a wave of Koreans with PhDs from S. and European universities. They are returning to key itions in companies, financial institutions, universities, and nk tanks. Family members who have dominated the top nagement ranks of the *chaebol* are being replaced by sea-ed executives with international experience. Meanwhile, rean companies, longtime laggards at research and devel-nent spending, are boosting their budgets and setting up itutes and labs aimed at spurring genuine innovation.



Koreans also are making strides in applying technology in their society. Use of the Internet is expanding quickly, and Koreans are absorbing everything from 24-hour automated teller machines to video on demand.

Korea's current sizzling annual growth rate of 9.9% is expected to ease. But economists believe the country will maintain an average of 7% growth for the next five years. That should put Korea within striking distance of leadership in many global industries, including autos. Hyundai Motor, Kia Motors, Ssangyong Motor, and Daewoo Motor continue to



GOOD TIMES: *Crowds of happy kids at amusement parks are a sign of prosperity*

gear up aggressively, but now a powerful new player, Samsung, is plunking down $5 billion to enter the industry. It will build a state-of-the-art assembly plant with technical help from Nissan Motor Co. The reason the government allowed a new entrant into a crowded field, President Kim says, is "for the sake of quality and technology development" aimed at world markets. At the same time, the auto makers are engaged in major new deals with the likes of Mercedes-Benz and Bosch, and TRW. The U. S. company has recently agreed to transfer 100% of its air-bag technology, including the technically difficult sensor, to Hyundai Motor in return for 50% of the profits derived.

TWO-WAY STREET. The Koreans also are reaching world-class levels in areas of nuclear energy, telecommunications, and aerospace (table, page 57). In each case, the Koreans acquired crucial technologies from the West or Japan and adapted them. Despite the threat of potential Korean competitors, U. S. companies continue to be interested in technology alliances with Korean companies because the Koreans increasingly have something to offer in return. That includes production technology, supplies of DRAM chips and display screens, interesting technology in some niches, and plenty of capital. "In the old days, it was a one-way flow," says Samsung Electronics Vice-Chairman and CEO Kim Kwang-Ho, whose company is at the heart of Korea's high-tech push. "Now it is a two-way street. We have something to give back."

Is Korea's emergence a threat to Japan? The upstarts


PERFORMANCE TIMES ON PRO/ENGINEER v.14*
ALPHASTATION 250 4/266
177 sec.
HP 9000 735/125
202 sec.
SUN SPARCSTATION 20/61
322 sec.

have inflicted real pain in industries such as steel and shipbuilding. And the Koreans are fast moving up the technology chain to strong positions in DRAM chips and, most recently, CD-ROM drives and liquid-crystal displays. "Japanese companies have had to eat crow on their prediction that the Koreans would never master semiconductor technology," says American Electronics Assn. Tokyo representative John Stern. "They've gone from 0% to 4% of this market."

But the Koreans—with a smaller industrial base—are not competing against the full range of Japan's economic power. And ironically, the Japanese gain in some sense from Korea's burning ambition. The reason is that the Koreans are still dependent on Japanese capital equipment and components, creating a lopsided trading relationship in Japan's favor. "The higher Korea's income level, the better," says a senior official of the Ministry of Foreign Affairs in Tokyo.

Moreover, Japanese companies afflicted with high-yen-induced costs at home are often able to buy cheaper components from Korea, improving their own competitiveness internationally. In early July, Fujitsu Ltd. announced that it would start buying CD-ROMs and LCD screens from Korean suppliers, hoping to bring prices down on its low-end personal computers. The Japanese also are deepening their technological alliances in Taiwan and Southeast Asia to drive their costs down. So even if the Koreans do beat Japan in some sectors, it may only serve to drive the Japanese to keep reaching new levels of competitiveness across a broad front.

TRAGEDY: A department store collapse points up a risk of breakneck growth

The key to just how far Korea can go is how quickly it can develop its own human capital. Even though Korea claims the largest number of PhDs per capita in the world, the sheer speed at which it is moving into technology fields has outstripped its number of systems engineers, software designers, technology managers, and other personnel who understand how to get technology into the marketplace. "You can buy technology, but you cannot buy developed human resources so easily," says T. W. Kang, a U. S.-educated Korean in Tokyo who spent 10 years with Intel Corp. and is now managing director of Global Synergy Associates.

To see how the Koreans are trying to climb to the next level, pay a visit to Samsung Electronics' massive semiconductor facility at Kihung, about an hour south of Seoul. With huge, spanking-new buildings nestled in onetime farmland, has much the same look and feel as U. S. technology h spots.

There, Dae Je Chin, 44, a PhD in electrical engineeri from Stanford University and a two-year veteran of IBM's r search labs in Yorktown Heights, N. Y., is heading the co pany's 2,500-person semiconductor division. Among them a 100 PhDs, mostly Koreans and about half of them from U. universities. "When you come back to Korea, you feel the u gency," says the diminutive, bespectacled Chin. "You wo harder to fulfill the mission." IBM, in his view, was a "count club environment."

Samsung is already No. 1 in the world in 4-megabit DRAM and now Chin is gearing up production lines for the next-ge eration 16-megabit DRAMs. After that, he will turn to 6 megabit DRAMs. Most experts reckon the company can rema in the No. 1 position in both those new generations. After th will come the 256-megabit DRAM, and Chin is racing to hav commercial samples available by 1997. Aside from the memory chips, Samsung is trying to break into more lucrati chips, such as application-specific integrated circuits (ASICS

Chin and his team are working 60 to 70 hours a week realize their ambitions. "The Japanes much like the Americans and Eur peans, have a very defined procedure he explains. "Everything is 'first th step, then that one.' But if you're in catch-up mode, you just do it and mak it work. Koreans are good at that."

To develop his people, Chin sends to 10 to U. S. universities each yea and assigns others to work on projec with Japanese or American technician hoping they quickly trade knowho They are on average 10 years young than their Japanese counterparts—ar such relative youth could pay of "High tech is not easy for older pe ple," Chin says. The implication clear: Brainpower, youth, hard wor and huge capital will triumph.

A NEW BLEND. If Samsung is usin brute force, Daewoo and LG are tryin a slightly more sophisticated approac by creating an institute and a researc center, respectively. Daewoo's Institut for Advanced Engineering, with a buc get this year of about $70 million, host 400 research engineers, students, and technical personn from Daewoo's different operating units. Rather than merel buying technology from other countries and applying it, th institute allows specialists from Daewoo Motor and the counterparts from Daewoo Electronics to blend differen technologies and actually innovate.

Clearly, the quality of Korean corporate R&D is improvin "We have to create something on our own," says Kim Chan Soo, executive vice-president of LG Electronics Researc Center. It's the sheer drive of technologists such as the silve haired, precisely spoken Kim that lends credence to his cou try's push up the ladder. A PhD from the University Florida, he spent 10 years with Harris Semiconductor, RC Laboratories, and Digital Equipment Corp. By 1983, he wa a consulting engineer for DEC, which he felt guaranteed hi a job for life. At 43, he thought about pursuing the America dream—buying a piece of land and working much of th time from home.

Then one day, a friend from LG in Korea called to ask if h wanted to come home. "I decided I wasn't ready to retire," h

ls. "I wanted to come home to do
thing for technology and for my
try."
s research center, with 300 re-
hers and a $45 million budget, is
ing some sweet successes. Per-
most significant is LG's progress in
ning its own algorithms and mod-
or signal compression and decom-
sion. These are the key value-add-
part of semiconductors used in
op boxes, digital video disks, and
lite broadcasting receivers.
eir work has set the stage for a
rsal in how LG deals with U.S.
companies such as Texas Instru-
s Inc. as well as Japanese chip-
ers. "In the past, they came to us
said here is the chip design and
to make it," Kim says. "But now
ay: 'We need a chip. Here is our
n. Do it our way.'"
rtly as a result of the flow of re-
ng engineers and scientists, Koreans argue that their
is to secure leadership positions in key niches and use
positions to swap for other technology and components
need. "We are becoming a significant player in the global
arena," says Science & Technology Minister Chung Kun-
who received a 1963 PhD from Michigan State University
clear physics. "We hope to be a respectable partner in the
l game, to be accepted in the same league."

AFTER A SHIFT: *Korea's workers share the nation's fierce drive to succeed*

In Korean eyes, technology equals economic growth, which equals national advancement. Clearly, there is a driving force of nationalism at work. A stable, prosperous Korea with hopes of reunification does imply a country less likely to be intimidated by trade threats or directives from Washington. When President Kim says that North Korea is "a Korea issue," he in effect is telling Washington to follow Seoul's lead in dealing with Pyongyang—or else.

But Korea won't be another Japan, with all the connotations that carries. The return of so many well-educated Koreans appears to be tilting the balance away from an inward-looking, relatively closed nation toward one that is eager to play a larger international role. The second language of Korea's youthful intellectual and technological elite is English, rather than the Japanese spoken by their elders.

The opportunities for America in Korea's emergence seem to outweigh the points of possible friction. It is probably wishful thinking to believe that Korea's success will dethrone Japan, thus indirectly helping the U.S. Nevertheless, there are ways that America can gain from Korea's gradual liberalization and its deepening grasp of technology. Korea is likely to open more widely to the U.S. and Europe to avoid Japanese dominance in capital goods, components, and other products.

PAINFULLY SLOW. Consider HP's LaserJet. The government banned the sale of LaserJet printers in 1991—ostensibly because the Japanese printer engine put Japanese content at more than 35% of the total value of the finished product. But now, the Trade Ministry has quietly agreed to lift the ban this January. "Sometimes it's painfully slow, but they're recognizing that to sell into export markets, they're going to have to let people sell here as well," says John A. Toppel, President of HP Korea.

That's one reason U.S.-Korean trade is booming, with the U.S. enjoying a surplus. More broadly, the Koreans are breathing new ambition and capital into the U.S. technology base. If they can achieve even part of their agenda, they will be players on the 21st century Infobahn in the U.S. and Europe, while building prosperity in Asia. Which explains why Korea's dash toward the top tier of economic and technological power will reverberate around the world.

By William J. Holstein and Laxmi Nakarmi in Seoul, with bureau reports

Korea Inc. Is in Transition

government plans to enhance competition by liberalizing the nestic market...but it will keep shaping industrial policy

TRADE	
viously closed sectors such autos will open to more nestic and foreign npetition...	...but the pace of the opening will be managed to reduce negative impact on domestic players.
INVESTMENT	
e won will become convert- e and foreigners will gradu- be allowed to buy as much 25% of a company's equity...	...but they will be blocked from taking majority control of Korean companies, and Korean capital outflow will be restricted to prevent capital flight.
PRIVATIZATION	
e government will privatize te-owned telephone, power, l other companies to spur ater competition...	...but it will retain a "golden share" in privatized companies, an imitation of French-style capitalism.
BUREAUCRATIC OVERSIGHT	
e government will reduce its cromanagement of the econ- y, by interfering less in pri- e sector decisions...	...but will keep building national champions and borrow from Japan's *keiretsu* system to nurture small and medium-sized companies.

DATA: KOREA INSTITUTE FOR INDUSTRIAL ECONOMICS & TRADE, BUSINESS WEEK

'NOW IT IS OUR TURN TO CONTRIBUTE TO THE WORLD'

President Kim Young Sam and his interpreter are jogging every morning at 5:15 to get ready to run with President Clinton in Washington during a visit beginning July 25. In advance of his trip, Kim, 67, spoke with BUSINESS WEEK *World Editor William J. Holstein and Seoul Correspondent Laxmi Nakarmi for 75 minutes in the official Blue House.*

Q: *Will you qualify to join the Organization for Economic Cooperation & Development by next year?*
A: Yes, we think we can meet the guidelines of the OECD. Within this year, our per capita income will reach the $10,000 mark, and our economy is already the 11th-largest in the world. If the economy continues to grow at its current rate, by the beginning of the 21st century our per capita income will have risen to $20,000, with a gross domestic product surpassing $1 trillion.

After the Korean War, the destruction was almost total. The U.S. helped us a lot. The U.N., too. Now, it is our turn to contribute to the world by helping developing countries in need. We will upgrade Korea's role.

Q: *How are you controlling your country's big conglomerates, or* chaebol*?*
A: The problem of the *chaebol* acting like an octopus with their tentacles stretching throughout the economy should not continue. We need a better balance between big and

Cover Story

small companies. We cannot just let the *chaebol* grow by taking over small businesses. I have sought to restrict their reckless expansion. We've used antitrust laws and reformed our tax system to regulate them. We have cracked down on illegal insider trading. Had I not taken these measures, the *chaebol* would have gotten even bigger.

Q: *So why are you allowing Samsung [group] to enter the auto business, and others in telecommunications?*
A: These are not cases where there is a one-sided monopoly but rather several companies competing. There

"Within this year, our per capita income will reach the $10,000 mark"

— PRESIDENT KIM

has been no specific favor to a specific company. Regarding autos, Korea is already the fifth-largest auto manufacturer in the world. Given our rising status, we should upgrade our technology. We let Samsung into the industry after carefully considering all the pros and cons. We have to introduce more competition for the sake of quality and technology development.

Q: *What about North Korea?*
A: North Korea is in an extremely difficult situation, with shortages of energy and food. Because of these difficulties, we're helping the people. We're starting to deliver 150,000 tons of rice. We want them to become stable as early as possible. There will be important dialogue between the Koreas in coming months. Kim Il-Sung died only two weeks before I was scheduled to have a summit with him last year. Now, there is no alternative to Kim Jong-Il. If he becomes leader, peace can be promoted.

Q: *Are you pleased with the way the U.S. managed the nuclear power accord with the North?*
A: I have been consulting very closely with President Clinton about this. We have had four summit meetings and 10 phone conversations to discuss it. The final agreements are exactly what we wanted to see. [South] Korea will play a central role in the design, manufacturing, construction, and supervision of the light-water reactors. U.S. companies will participate as subcontractors.

Q: *Is the U.S. moving too fast to develop relations with the North?*
A: The U.S. approach to the North should be based on the extreme significance of intra-Korean relations. This is an issue between the two Koreas. If there is genuine and sincere dialogue, and a change of attitude [in the North], then—and only then—the U.S. should improve relations with North Korea.

The U.S. should realize that its relations with [South] Korea are very important in trade and defense. It should consider the weight of those relations vs. its insignificant interests in the North. Right now, there is no comparison.

Q: *Do you anticipate more trade disputes with the U.S.?*
A: Overall trade relations are very good. The size of the two-way trade flow has grown from $40 billion last year to approximately $50 billion this year. Yes, there are some problems in autos, financial markets, intellectual property, and agriculture. But we can reach agreement on them. We are actually in trade deficit with the U.S., about $3.1 billion up to May. So I don't think there is a need to create a serious issue, given the trade surplus the U.S. enjoys.

Q: *Who do you think your successor should be?*
A: The person should be very honest, very sincere. In terms of morality, he should be straightforward. He must be very strong. One other thing is crystal clear: An overwhelming majority of the people desire a generational change in political leadership. Given that desire, it is my responsibility to make it happen.

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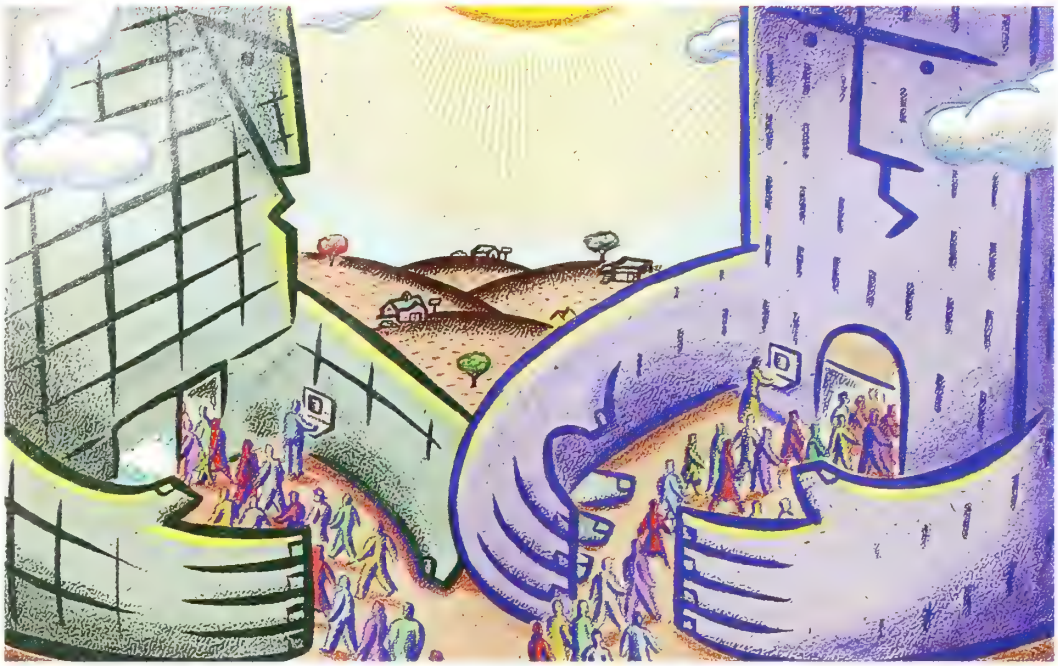


Banks will either have to become high-tech giants—or stay so small their service is truly personal

BANKING

WHY BANKS KEEP BULKING UP

Technology drives the need for capital heft—and mergers

Buy or be bought. That's the watchword for the banking industry, which is in the midst of the biggest wave of consolidation in its history (page 92). At $24.2 billion, the volume of bank mergers announced this year already matches 1991's total. But just as remarkable as the volume of deals is their rationale.

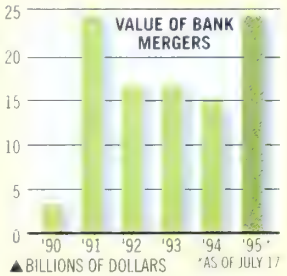
Most deals over the past few years have been predicated on cost savings. But today's deals are different. They consist mainly of strong institutions combining to bulk up to generate new revenues. Above all, they are designed to make possible the capital investments banks must make to be major players in today's financial world.

Banking is becoming a technology-driven business as never before. And increasingly, technology is driving the wave of consolidation. The main reason is that more and more financial products and services, from loans to credit cards, are being marketed through computers and telephones instead of through branches. Other bank services, such as trading and securities processing, are even more technology-intensive. All of this is requiring unprecedented capital investments. A study by Ernst & Young predicts that banks' annual rate of spending on technology will rise 21% between 1994 and 1997. "Technology is a new imperative," says Gerard L. Smith, a managing director in the financial institutions group at UBS Securities Inc., who estimates that $19 billion was invested by banks for technology in 1994, just over half of it by just 52 banks. "Those that can spend on technology are going to dominate the field."

Mergers and acquisitions are the best route to acquire critical mass. That's because the growth in technology spending is far outpacing the growth in banks' earning assets, says Smith. Banks able to make big technology investments gain an unparalleled ability to reach customers nationwide, even though their physical franchise may be limited. Edward E. Crutchfield Jr., chairman and CEO of First Union Corp., calls the advent of new electronic delivery systems for consumer and small-business banking "the single biggest reason" First Union is acquiring First Fidelity Bancorporation, based in Newark, N.J., in a $5.1 billion deal. "This industry is on its way to eliminating the branch as a delivery system," he says. "The cost of converting people to [electronic] banking is in the hundreds of millions. We've now got the opportunity and the wherewithal to convert this system."

BRANCHLESS PUSH. Crutchfield has spent several hundred million dollars on technology over the past several years, including a system to connect all of First Union's branches in a single reporting network. Now, he expects the First Fidelity acquisition to quickly expand his reach but not necessarily in traditional fashion: "The fact that First Fidelity has 700 branches didn't interest me at all," he says. "The fact that they had 2.5 million customers did"—and he will market to them through electronic channels as well as branches.

PUTTING IT TOGETHER



DATA SECURITIES DATA CO.

rst Chicago Corp. has similar plans
s $5.4 billion merger with Detroit's
Bancorp Inc., announced on July
With more and more products re-
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e better off if you can spread the
over a broader customer base,"
Vice-Chairman David J. Vitale. He
First Chicago's payoff will come
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risk management to NBD custom-
First Chicago's technology spending
w about 15% of total expenses, and
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ING BARRIER. Banc One Corp. is
benefiting from technology invest-
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Bank of New York Co. is taking
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a bank with $10 billion in assets
considered large—but today, $5
n to $10 billion is a small bank,
rding to Herbert A. Lurie, co-head
ancial institutions at Merrill Lynch
o. Now, scores of midsize banks,
assets ranging from $10 billion to
billion, could lose their indepen-
e to the banking behemoths that
emerging. "At the end, you'll have
be 20 money-center and superre-
al banks with assets over $100 mil-
a bunch of [very small] community
s, and some niche banks" that spe-
ze in businesses such as securities
essing, says Howard Adler, a part-
at Gibson, Dunn & Crutcher. But,
ays, "woe to the $20 billion bank"
without a core specialty that could as-
sure its survival.

The center may not hold any better
on the technology front. Big, technolog-
ically strong banks will be able to reach
customers across the country. Small
community banks will offer little in the
way of state-of-the-art electronic bank-
ing services, but they will still be able
to give consumers uniquely local, per-
sonalized service. They "almost have
it easier because they can give a de-
gree of service the big banks can't,"
says Ronald Mandle, an analyst at San-
ford C. Bernstein & Co. But there will
be little room for banks too big to be
truly personal and too small to have
electronic offerings that can compete
with those from Citibank, Wells Fargo,
and others.

How long will the consolidation con-
tinue? J. Christopher Flowers, co-head
of the financial institutions group at
Goldman, Sachs & Co., says that "the
psychological barrier to selling your
bank is dropping" because nobody wants
to be left out of the action. With banks'
technology needs expanding daily, the
urge to merge can only intensify.

By Kelley Holland in New York, with Richard A. Melcher in Chicago and bureau reports

THE SPOTTED OWLS OF BANKING

What's happening to all the bank presidents? There have been plenty of personnel casualties in the surge of bank mergers, restructurings, and reshufflings. But what's surprising is that the normally august post of president is disappearing—or at least becoming risky.

Look at the evidence. When First Chicago Corp. announced its intention of merging with NBD Bancorp on July 12, CEO Richard L. Thomas extolled the combination's dominance of the local small-business market, its capital strength, and more. But Leo F. Mullin, president of First Chicago and the man many thought would eventually run the place, won't be around to participate in the action. He will be leaving once the deal has been completed. "My own aspirations will have to be realized elsewhere," Mullin says.

MULLIN: *First Chicago's merger has cut him out*

SHANKS: *Heir less apparent at Bankers*

"HAZARDOUS." At Bankers Trust New York Corp., after Chairman and CEO Charles S. Sanford Jr. announced his plan to retire next year, the board said it would conduct a wide-ranging search for a successor rather than simply name President Eugene B. Shanks Jr., until then the heir apparent, to the job. At J. P. Morgan & Co., the new CEO, Douglas A. Warner III, is chairman, CEO, and president all in one. Chase Manhattan Corp. did not replace President Arthur F. Ryan when he left last October to run Prudential Insurance Co. Ditto Citibank, after President Richard S. Braddock left in 1992.

Why do bank presidents seem to be a dying breed? Some say banks, long known for their bloated executive ranks and hierarchical structures, want to become leaner and flatter. What better way to demonstrate that than axing No. 2? But Thomas S. Johnson has another idea. He says that with banks focusing on a few key businesses, it makes more sense to have what amount to chief executives of each business instead of an overall deputy to the top gun. "Being No. 2 is a hazardous occupation, especially in a period of change," he says.

Johnson should know. He was president of Manufacturers Hanover Corp. in 1991 when that bank merged with Chemical Bank, and he was not included in the succession plan. Today, he is chairman and CEO of GreenPoint Financial in Queens. Is he planning to name a president? Not anytime soon, he says.

By Kelley Holland in New York

TOP TO BOTTOM: PHOTOGRAPHS BY RALF FINN HESTOFT; SABA; JOHN ABBOTT

MARKETS & INVESTMENTS

THEY COULDN'T SEE THE FOREST FOR THE HEDGES

This year, even George Soros missed some great opportunities

It's a sad and oft-told tale: The Bull Market that Got Away. The U.S. stock market has zoomed 22% so far this year, and bonds have been similarly spectacular. But all too many investors, worried about a correction, have hesitated and watched the opportunity for big gains slip away. Surely the "smart money" set—hedge funds and offshore investment outfits—wouldn't make the same mistake. Or would they?

Well, they did. Hedge funds, still reeling from a disastrous 1994, have let the U.S. bull market elude them. Overall, they gained an average of 7%, net of fees. From George Soros to Michael Steinhardt to Julian Robertson Jr., the smartest and nerviest investors in the world largely ignored—or worse, shorted—the technology-driven U.S. market. Nor did they profit from equally clear trends among overseas stocks and currencies—notably in Japan, where the yen rocketed and the market dived. Even funds specializing in emerging markets missed the rebound in the Mexican *Bolsa*. "They were underinvested and hedged," observes E. Lee Hennessee, a veteran hedge-watcher who tracks hedge funds at Weiss, Peck & Greer.

WHOOPS! Short-selling funds sustained the worst results. But traditional hedging strategies didn't fare much better

The result was a humiliating performance for hedge and offshore funds, which are designed for wealthy investors. Hedge funds can do pretty much anything—sell short, use leverage, and trade currencies. That usually gives them a big advantage over conventional money managers. And if the market nose-dives—as it threatened to do on July 19—their strategies will pay off.

So far this year, however, hedge funds have eked out single-digit returns, and were bested by even the most humdrum equity mutual funds. Hedge funds realized an average return of 8.3% in the first half, according to the hedge fund index compiled by Hennessee (table). Subtract the 1% or higher management fee and the 20% share of the profits withheld by fund managers, and the number creeps below 7%. Meanwhile, mutual funds achieved an average total return of 16.7%, net of fees.

QUANTUM LIMP. A good example of opportunities lost is the first-half saga of George Soros' $3.7 billion Quantum Fund, one of the investment world's top long-term performers. It turned in a lackluster 0.5% gain, net of fees, through July 12, following a meager 3% gain in 1994. Stanley Druckenmiller, managing director of the fund and Soros' top strategist, portrays the year as a succession of missed chances and miscalculations. Says Druckenmiller: "There were very good opportunities in bonds, stocks, and currencies tailor-made for a fund like ours, and I just blew it. I did not take advantage of those opportunities."

For Quantum—an offshore fund restricted to non-U.S. citizens—the year began on an off note. Soros' fund was long the Japanese market at yearend 1994. The market has declined some 16% since then in yen terms. Soros' traders unloaded their Japanese stocks but ran into liquidity constraints that sharpened their losses. Quantum lost still more money making bad currency bets during the dollar's slide in February and March. But the losses were offset by gains in the U.S. bond market, adding up to a generally flat six months. Soros' traders increased the maturities of their bonds, but "we should have got-

Hedge Funds Stumble in the First Half

CATEGORY	1995 PERFORMANCE THROUGH JUNE 30*
FINANCIAL EQUITIES	25.5%
GROWTH	16.6
CONVERTIBLE ARBITRAGE	13.1
DISTRESSED SECURITIES	13.1
VALUE	11.6
OPPORTUNISTIC	11.5
RISK ARBITRAGE	10.5
EVENT-DRIVEN	10.4
LEVERAGED BONDS	8.7
MARKET-NEUTRAL	6.9
MULTIPLE ARBITRAGE	5.1

CATEGORY	1995 PERFORMANCE THROUGH JUNE 30*
INTERNATIONAL	4.1%
MACRO	1.4
PACIFIC RIM	–4.6
EMERGING MARKETS	–9.5
LATIN AMERICA	–10.7
SHORT-SELLING ONLY	–18.2
HEDGE FUND INDEX	8.3%
S&P 500	20.2%

*Unweighted index of 200 representative hedge funds, includes distributions to investors. Figures do not include deductions of incentive and management fees

DATA: WPG-HENNESSEE HEDGE FUND ADVISORY GROUP

nassively long," says Druckenmiller. orrectly saw that the economy d slow down, and acted on that eption. But I thought it would be orary"—just a transitory trading rtunity, not the vast source of prof- turned out to be.

gloom prevailed at the Soros head- ers across from Manhattan's Carne- Iall, there was considerably greater r near Grand Central Station, e Julian Robertson's $1.7 billion Ti- hedge fund boasted an 11.4% gain fees through July 14. That was best performance of the hedge fund moths. Unlike Soros, Robertson bearish on Japanese stocks, though 's currency trading was uninspired. fund's gain was sufficient to make or a crummy '94, when Tiger fell Hedge fund managers usually must up losses before they can draw in- ve fees, which are generally about of the profits.

RO MELTDOWN. For the mega- e-fund operator who suffered most 94—Michael Steinhardt—1995 has ed on a generally upbeat note. The million Steinhardt Partners fund ed 9.5%, net of fees, through July gging the market but far outpacing 1.8% gains realized by "macro" —the fund category, shared by So- and Robertson, that takes broad, aged bets on the global bond, cur- , and stock markets. Steinhardt hers plummeted 33% in 1994, so fund will have to climb 50% this to make its investors whole.

ot surprisingly, short-selling hedge s sustained the worst performance . Fighting the tape clearly did not this year—and the traditional e fund strategy of going short as as long didn't do much better. "Any you have an explosive upward et, hedge funds are not going to do ell," notes Harry Strunk, an invest- consultant in Palm Beach, Fla., specializes in hedge funds.

t don't sell the hedge funds short. have a way of roaring back. Take tum. It was down 6% at the end of rst half. But then, one of the fund's ons paid off—big time. The gain, to une of $250 million or so, erased loss and put Quantum ever so tly into the plus column in just un- wo weeks. What rabbit did he pull f the hat? Druckenmiller isn't say- But the size and speed of the gain ll the earmarks of a leveraged bet urrencies. The old Soros-Drucken- magic is still alive and well. But it take a lot more before Quantum be able to generate the kinds of ns that were realized by ordinary tors who took a ride on the bull.

By Gary Weiss in New York

STOCK MARKETS

MEXICO BULLS MAY BE HEADING OVER A CLIFF

They could be overestimating this very troubled economy

Just seven months after a currency crisis sent investors stampeding out of the Mexican market, the battered *Bolsa* is charging back. In the past month alone, the index has climbed about 25% as investors went bottom-fishing, searching for value plays and scooping up blue-chips. The rally, pundits proclaim, puts Mexico back on the emerging-markets map.

Not so fast. The numbers are deceptive. The market's latest spurt, which brought the *Bolsa* to a high of 2575 for the year, still leaves the index far from its record of 2881 last year. Moreover, the 4% rise so far this year, after adjusting for the devaluation of the peso, shows a loss of more than 13% in dollar terms. And the *Bolsa* has stumbled in recent days.

True, there is some positive economic news to spark investor interest. Domestic interest rates are falling, with the 28-day Treasury Certificate at 41%, down from a high of 83% in March. Inflation was down to a monthly rate of 3.2% in June. The peso is stabilizing. And Mexico has had a trade surplus for several months now, helping reverse a $28 billion current account deficit. The U.S. interest rate cut also revived interest in emerging markets. "Foreign investors are buying the feasibility of the economic program," says Juan Carlos Torres, director of equity analysis at Grupo Financiero Serfin in Mexico City.

But Mexico's problems are severe. Mexican Finance Minister Guillermo Ortiz admits that the country's economy is in a deep recession, with gross domestic product expected to shrink by 4% this year. "Some of the fundamentals are still pretty bad," says Jeffry H. Taylor, chief Latin American economist and investment strategist for NatWest Securities. "A lot of people say the worst is over, but I'm not so sure we can say that yet."

Investors may get that message as second-quarter earnings start rolling in. While a few companies will report small boosts from price increases made last spring, all but exporters will confirm the economy's dismal performance. Although some analysts say the market has discounted those results, a correction may be in the offing as investors dump the underperforming companies and take profits on the stronger players.

BRIGHT SPOTS. Some companies, particularly exporters, are prospering in Mexico's weakened economy, however. Those with revenues from exporting or foreign holdings, such as cement-maker Cemex and mining company Industrias Peñoles, have a stream of hard currency revenues. Where the bulk of their costs are in devalued pesos, these companies should be reporting increased margins.

Despite the strong exporting picture and a few good economic numbers, some investors want more proof that Mexico is on the right track. William Truscott, a member of the Latin American equity group at Scudder Stevens & Clark Inc., refused to join in the recent buying spree and even took a few small profits during the rally. Now he's neutral, noting that "political risk has not diminished one iota."

Such worries are likely to prevent the market from rising much higher this year. *Bolsa* prices already reflect investors' expectations that the economy will limp toward growth next year. Inflation is expected to reach an annual rate of 55% in 1995. "The corporations can't do well without the country doing well," says Truscott. The bulls might want to heed that, if they don't want to get gored by the market once again.

By Elisabeth Malkin in Mexico City

ILLUSTRATION BY RANDALL ENOS; CHART BY ERIC HOFFMANN BW

NO ROCKET SCIENCE, JUST STRATOSPHERIC RETURNS

Techno maven Lee Kopp's shoe-leather research has paid off big

Technology stocks have been hotter than a midsummer heat wave. And many investors are sweating over what's perhaps the most critical decision in the market today—whether to take the juicy profits they have made. Indeed, the 7% plunge in tech stocks in just two days, July 18 and 19, shows that some have begun to cash in. But for investment-manager Lee Kopp, who has made tons of money on his high-tech holdings, the decision is a no-brainer. "Stay with the tech stocks. This wave has a long, long way to go."

Kopp's counsel is worth heeding. His firm, Kopp Investment Advisors (KIA), based in Edina, Minn., recently celebrated its fifth anniversary by posting what is perhaps the best five-year record in U.S. money management today: a 44% average annual total return, after fees and expenses, for the five years ending June 30. By contrast, the best-performing mutual fund for the same period, Seligman Communications & Information Fund, earned a 30.8% average annual return. And Kopp's results surpass the returns of most hedge funds, which use techniques Kopp does not employ, such as leveraging and selling short (page 68).

STAND BY YOUR PORTFOLIO

"Stay with the tech stocks. This wave has a long, long way to go."

—Lee Kopp, Kopp Investment Advisors

LESS IS BETTER. In fact, there's nothing all that unique about how Kopp selects stocks. He has no secret formula or "black box" trading system. Instead, Kopp and the seven other portfolio managers do shoe-leather research, visiting companies, their managers, employees, and work sites, while crunching numbers from financial statements. They also prefer to invest in companies before Wall Street analysts start talking them up. Kopp, 60, who was a retail stockbroker for 30 years before switching to money management, says many of his leads come from talking with corporate managers about competitors they fear and admire. "That's how we first learned about Bolt Beranek & Newman," notes Kopp. That company, which builds wide-area communications networks, is now one of his 10-largest holdings. The stock is up 122% so far this year.

Unlike many investment managers, Kopp takes relatively large positions. Although the firm has $2.3 billion in assets under management, the KIA buy-list has only about 75 companies. (To brake growth, Kopp is turning away most new business.) Portfolios have 30 to 35 stocks. By contrast, emerging-growth mutual funds of KIA's size hold 200 to 300 stocks in a number of industry sectors. With more money concentrated in fewer names, Kopp's clients get a bigger bang for their bucks.

Of course, this portfolio concentration carries far greater risk: A bad investment takes a heavier toll. About one out of five investments don't work out, says Kopp, but earning triples and quadruples on others more than compensates for the flops. Short-term returns can be volatile; in 6 out of his 2[illegible] quarters, including the first 2 of 199[illegible] Kopp's returns were negative. Peter Walker, editor of *Money Manager Review*, says that KIA has taken more risk than most of its peers, but the returns have more than compensated for it.

Kopp also practices a buy-and-hold strategy that's unusual in this fast-moving corner of the market. Only 24¢ out of every dollar turns over every year, about one-quarter the rate of turnover at emerging-growth mutual funds. "Low turnover means few commissions and higher aftertax returns," Kopp says.

The by-product of concentrated portfolios and low turnover is that KIA has become a major and, in many cases, the largest shareholder in some companies it owns. Technometrics Inc., which tracks managers' holdings, reports that KIA holds 22.5% of California Microwave, 18.9% of Norand, 16.4% of Picturetel, 16.2% of Network Equipment Technologies, and 14.6% of Bolt Beranek & Newman.

NO HURRY. Kopp's firm has even larger stakes in some of the smaller companies in its portfolio, holding more than 30% of the stock in Digital Microwave, Empi, Stanford Telecommunications, and Telco Systems. These huge positions in relatively illiquid stocks mean Kopp can't unload quickly without taking a bath. "You don't get in or out of these positions overnight," admits Kopp. "But we're comfortable with these large positions because we know the companies."

Assuming large positions also means Kopp's clients will have to ride out any correction. "Things were getting overheated, especially in the last few weeks," he says. "A correction is just what the doctor ordered." Kopp says he may step up his buying as prices pull back and that his commitment to high tech is unwavering. After all, he doesn't have to invest in tech, only emerging-growth stocks. Says Kopp: "We're in technology because that's where the best growth opportunities are."

By Jeffrey M. Laderman in New York

Kopp Scores Big With High Tech

10 Largest Holdings

STOCK	AVERAGE COST/SHARE	RECENT PRICE
TELLABS	$ 7	$43
ADC TELECOMMUNICATIONS	13	35
DSC COMMUNICATIONS	16	46
PICTURETEL	18	51
3COM	18	67
NETWORK EQUIPMENT TECH.	10	25
BOLT BERANEK & NEWMAN	15	33
CALIFORNIA MICROWAVE	21	27
NORAND	34	42
DIGITAL MICROWAVE	13	13

DATA: KOPP INVESTMENT ADVISORS INC.

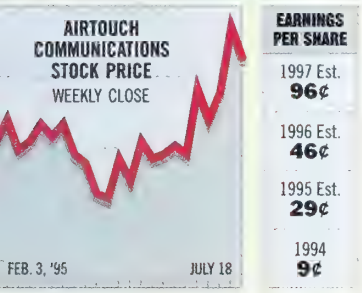
GENE G. MARCIAL

IRTOUCH MAY GET N IMPORTANT CALL

ot many companies can match the $14.6 billion market capitalization little-known AirTouch Communica- ns (ATI). The stock trades on the Board at 29⅝, an astounding 101 es expected 1995 earnings of 29¢ a re. Why does the market give Air- ch such a munificent valuation?

It's a play in the fast-growing wire- -phone business, with a lot of global ets going for it—plus an intriguing out kicker," says one California in-

MORE ROOM TO RUN?



OLLARS
DATA: BLOOMBERG FINANCIAL MARKETS, SMITH BARNEY INC.

tment manager. The stock's runup is from over, he says.

A major provider of cellular-phone paging services in the U.S., Eu- e, and Asia, AirTouch was spun off Pacific Telesis in April, 1994. De- e the stock's lofty p-e, Christy Phil- , an analyst at Smith Barney, thinks Touch is still a buy: "The company's ts are worth substantially more n its current stock price," she says. calculates the private-market value he assets at 47 a share this year 58 next year. These figures reflect company's operations and rapidly wing customer network: Its "geo- phic footprint" covers a population 6 million people in the U.S.—main- California, Georgia, Michigan, Mis- ri, and Ohio—and almost 65 million rseas—in Belgium, Germany, Italy, in, Japan, and Korea.

Fierce competition and consolidation he field have made AirTouch "an at- ctive buyout target," says one in- tor. Such giants as Britain's Voda- e Group and Cable & Wireless and big phone companies in France and ly are scouting for outfits with a hefty share of the U.S. market and a foothold in Europe and Asia, he adds.

AirTouch Chairman and CEO Sam Ginn acknowledges that informal inquiries have been thrown his way. "But there hasn't been any kind of [merger or buyout] situation that has made sense to us," he says.

Phillips expects 1995 operating cash flow to hit $702 million. In 1996, she figures that will grow 46%, to more than $1 billion. And in 1997, she foresees an additional 30%, to $1.3 billion.

The analyst's estimates of 46¢ a share for 1996 and 96¢ for 1997 don't include startup costs of the broadband personal communications services (PCS) licenses the company has obtained. The licenses were won through a joint venture of its U.S. cellular operations with U S West and through its participation in PrimeCo, a consortium formed to market nationwide PCS programs. With these links, AirTouch has the third-largest domestic coverage—after the Sprint-Comcast-Cox Communications joint venture and AT&T-McCaw-Lin group.

THESE TWO JUST LOOK HUMDRUM

"Certifiably dull" stocks excite investment pro David Leibowitz. He seeks them out because, he argues, they can be sleepers—undiscovered and underpriced. Two that Leibowitz is crazy about are Myers Industries (MYE) and Justin Industries (JSTN). Their common thread: Both are trading close to their lows but have solid prospects for a turnaround, says Leibowitz, managing director at Burnham Securities.

Myers Industries, a maker of tire-repair materials and other prosaic plastic, rubber, and metal products, including cabinets and toolboxes, has racked up record sales and earnings in 9 of the past 10 years, notes Leibowitz. It has also increased dividends almost every year. In spite of that record and good prospects for further gains, notes Leibowitz, the stock is trading at 14, not far from its low of 12⅞.

Leibowitz thinks the Street will wake up when earnings jump to $1.30 a share next year, up from an estimated $1.17 this year. It earned $1.17 last year. In 12 months, he says, the stock will hit 20.

Justin Industries, a maker of boots and bricks, is in the same kind of limbo: Its stock, at 11, is out of favor, falling some 70% in less than two years. It slid when boot sales stumbled and demand for bricks crumbled in the housing slump.

Leibowitz thinks the drop is a great opportunity: He sees boots coming back and housing rebounding this year. "With interest rates in a downslope and the economy holding up, consumer markets and the housing industry should get a lift," says Leibowitz. He figures Justin will make $1 a share this year and $1.35 next year, vs. last year's $1.33.

BAR-CODING THE WORLD

When little black-and-white stripes adorn the whole world's packages of food, drugs, and other merchandise, Peak Technologies Group (PEAK) will be one of the big beneficiaries. It is the largest distributor and systems integrator of bar-code data-collection equipment made by about 50 manufacturers, such as Zebra Technologies and Symbol Technologies. Already, Peak counts AT&T, Eastman Kodak, Ford, Motorola, General Electric, and Xerox among its customers. Little wonder Peak shares have soared to 27, up from 11 in early October. But they haven't, well, peaked.

So thinks one New York money manager who has been buying. "Peak is close to completing the acquisition of three big companies in Europe that would give Peak a larger platform to serve Asia, as well," he says. The buys would hike 1995 sales to $160 million, vs. 1994's $114 million, he figures. Earnings, would get a lift of 2¢ to 3¢ a share this year but a big jump in 1996, he says. Without acquisitions, analysts see earnings of 95¢ in 1995 and $1.18 for 1996, vs. 1994's 71¢. This money runner sees the stock leaping to the mid-30s and then hitting the high 40s next year—after the acquisitions.

A LOFTIER PEAK MAY LIE AHEAD

DATA: BLOOMBERG FINANCIAL MARKETS

Only 6% of Peak's revenues currently come from overseas. Peak President and CEO Nic Toms says industrial companies in Europe are getting more conscious about using bar-code ID systems to standardize and streamline operations.

ERIC HOFFMANN/BW

how

machine

we

TALK

to

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The machine is
nothing
but nuts, bolts and chips
until infused with
ideas,
thoughts,
notions,
that come to it
through a keyboard.

To work faster,
to work seamlessly with
the machine,
you need a keyboard that is integrated
with Microsoft® Windows,®
with the software that runs
the machine.
The Microsoft Natural Keyboard.™
Launch applications and files,
select menu items
(cut, paste, move, insert),
connect to a network server,
move the cursor automatically
to a specific word,
to a command button,
with special keys,
with simple keystrokes.

Together with a Microsoft Mouse
that instinctively slows the cursor
when near an icon,
that knows when to double-click,
you have extensions of the machine,
of the software,
that fit comfortably beneath your hands.
That connect you
to a mean, lean,
thinking
machine.

Microsoft

WHERE DO YOU WANT TO GO TODAY?™

STATISTICS

SUDDENLY, THE ECONOMY DOESN'T MEASURE UP

The government's new statistics will make the gains of the '90s look weak

If you had to add up everything produced in the U.S. economy, from apples to zippers, and create an inflation-adjusted measure of national output, how would you do it? The government has been toting things up the same way since 1933, when economist Simon Kuznets devised the present system of national accounts, later winning a Nobel prize for his efforts.

Get ready for a big change. In December, the Commerce Dept.'s Bureau of Economic Analysis (BEA) will make structural changes in the way it computes and presents its flagship measure of economic performance—real gross domestic product. More than that, even without these modifications, the new numbers will have broad implications for the way we perceive the current and past health of the economy.

This is no run-of-the-mill revision. It will dramatically change the face of a familiar economic statistic. Moreover, the new numbers will say that economic growth in this expansion has been a lot weaker than we thought, in part because there has been less business investment. As a result, the productivity gains we thought we were getting will evaporate, dimming hopes for improvement in real wages, living standards, and U.S. competitiveness. All this will raise important questions for policymakers, especially at the Federal Reserve.

HARD TO FIGURE. To understand what the BEA is doing, consider its task. Real GDP is a weighted sum of 1,100 or so components, including detailed categories of consumer spending, business investment, government outlays, and foreign trade. In an attempt to correct a long-recognized flaw introduced by the current method of adding up the pieces, the BEA will now feature what it calls "chain-weighted" GDP instead of the traditional "fixed-weight" measure. The current measure in constant dollars will be shoved into the background. In its place will be an index, and the BEA will emphasize period-to-period percentage changes. For example, first-quarter real GDP, which now reads $5,470.1 billion in 1987 dollars, will appear as 118.3, meaning the economy has grown 18.3% since the base year of 1987.

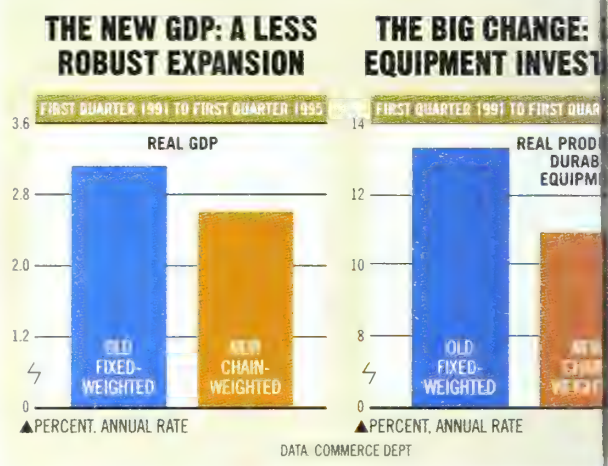
It gets worse. Because each GDP component will be an index, you can no longer add its subcomponents to get a total. So traditional analyses of, say, a sector's changing share within the economy or of how much an individual sector contributes to overall growth, will be next to impossible. Want to compare the contribution of capital spending in this expansion to past upturns? Forget it.

To circumvent some of these problems, Commerce plans to provide information on broad sectoral contributions to growth, and it will supply dollar-equivalent measures of the new index. But guess what? The dollar figures won't add up to the total, either, and the further back in time you go, the worse the problem gets.

The issues go far beyond familiarity and convenience. For the current expansion, the economy's growth rate will fall to 2.6% annually from its estimated 3.1%—and this was already the slowest upturn in the postwar era (chart). The 2.6% rate is not much greater than the economy's long-term growth potential. Even without the new chain-weighted numbers, the old fixed-weight version of GDP, which the BEA also will update by moving its base year to 1992 from 1987, will yield similar results for recent trends in output.

The expansion's weaker look is partly the result of how the new GDP will treat key categories of business investment, especially computers. That sector has been the real power behind this expansion, accounting for 36% of the economy's growth. Under the new data, it will take a big hit. Of course, the capital-spending boom is still there. Growth in equipment outlays, up 13.4% annually in this expansion, will downshift to a not-too-shabby 11% pace, but the boost to GDP is less than we thought.

The new numbers so dramatically rewrite history that almost every existing interpretation of economic data will have to be reconsidered, especially because of what they mean for productivity growth. Measuring between business-cycle peaks, the old data showed that productivity climbed 1% a year in the three business cycles since 1973 and 2% so far in the current cycle. By contrast, the new estimates show slightly higher gains in the 1970s and 1980s of 1.3% a year vs. a mere 1.4% in this cycle (chart). This is a negligible uptick. "The



The real power behind this expansion has been computers, but that sector takes a big hit under the revised data

numbers show that the impact of puter technology on productivity been exaggerated," says Maureen er of Haver Analytics, a New York omics consulting firm, and presi- of the National Association of Busi- Economists.

LE CHANGE. How is this possible, ght of all the downsizings of recent rs? One explanation may be that e many companies cut jobs by sub- ting new technology, high-tech in- ries have been on a hiring spree. overall, companies have hired more kers than they have gotten rid of in recovery.

ower output growth also suggests er corporate sales. Result: Many of job cuts that experts perceived as g output per worker may have sim- brought employment in line with this recovery's tepid sales growth. "Most people think that when a company lays off, it produces more with fewer workers," says Larry Mishel, chief economist at the Economic Policy Institute, a Washington think tank. "But many are just producing less, so their output per worker hasn't changed."

The new portrait of the economy also raises troubling questions about living standards and wages. Historically, pay and productivity growth have moved more or less in tandem. So it was no surprise that wages stagnated when efficiency gains slacked off after 1973. Economists have been more puzzled about the 1990s, when apparent productivity improvements have failed to translate into significant pay gains. The revised productivity numbers explain in part the poor performance of wages.

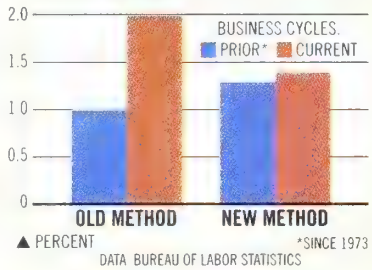
However, the data create another puzzle. Wages outpaced inflation by 1.2% in the two recoveries in the 1970s and by 1% in the 1983-90 upturn, but only by 0.7% in the current recovery. Yet productivity has improved at about the same pace as in prior decades. The implication is that the link between productivity and pay has weakened. It also suggests that the current profit boom—capital returns are at a 45-year high—is not being shared with workers.

CONFUSION. Less productivity growth is grim news on other fronts, too. Since Social Security is funded by a tax on wages, sluggish pay growth would leave the fund short of money when baby boomers retire. Some experts recently began to think the long-term outlook wasn't that gloomy, since the productivity revival eventually would lift pay. Now, the problem may turn out to be just as bad as everyone had feared.

The most important questions raised by all this, however, are the implications for policy, especially at the Federal Reserve. The Fed was well aware when it cut rates at its July 6-7 meeting that, based on current data, the new

ARE U.S. PRODUCTIVITY GAINS A MYTH?

Sweeping new revisions in government statistics show sharply lower growth of output-per-hour in the nonfarm business sector



DATA BUREAU OF LABOR STATISTICS

GDP would result in first-quarter economic growth of 1.7% instead of 2.7% and that second-quarter growth, to be reported on July 28 and expected to look weak, is likely to be revised downward as well. Looking longer-term, Fed Chairman Alan Greenspan has suggested that better productivity growth will help to stem inflationary pressures. But now, the new numbers seriously question just how much progress the U. S. has made toward improved efficiency.

So why create all this confusion? "Our objective is to provide the best possible measure of real GDP that we can," says J. Steven Landefeld, acting director of BEA. To do that, BEA must eliminate something called substitution bias, which is inherent in the current fixed-weight measure. Right now, the output of every good or service in real GDP is

ILLUSTRATION BY JOSEPH DANIEL FIEDLER

weighted by its price in a base year, currently 1987, and the pieces are added up to get total GDP in constant 1987 dollars. But in the real world, prices change, and consumers and businesses substitute the cheaper product.

Current GDP ignores this swapping. It inaccurately measures output because cheaper products are weighted with the old higher prices. And the distortion gets worse the further you get from the base year. However, the new chain-weighted GDP solves this problem, because the measure accounts for changes in relative prices during each year by chaining together price weights from adjacent years for every year that the GDP index is calculated.

The problem has been severest for goods whose prices change dramatically between base years, such as energy in the 1970s and computers and related equipment in the 1990s. Since 1987, quality-adjusted computer prices, for example, have dropped sharply, but such items are still weighted in GDP by their much higher 1987 prices. As a result, GDP has been grossly overstating the contribution of one of the economy's fastest-growing segments, especially in the most recent years. In this expansion, computers account for about 60% of the overstatement of GDP, says BEA.

PUZZLED LOOKS. This exaggeration can be minimized, but not cured, in the most recent years by shifting the base year forward, as the BEA does every five years. This updating decreases the importance of computers, for example, because of their new lower prices and weighting. But problems remain. GDP in the years prior to the base year tends to be understated. Moreover, the BEA had to face criticism every five years for rewriting history. So it will no longer feature this fixed-weight measure, and the agency will not include it in the morning news releases.

Now, each GDP component will be expressed by an index rather than a dollar figure–making analyses of individual sectors nearly impossible

Economists still aren't sure what to make of it all. When BEA officials laid out their plans in front of about a hundred analysts at the Harvard Club of New York on June 22, there were more than a few puzzled looks and a lot of grumbling. In particular, because the pieces of GDP no longer sum to their total, the change is sending forecasting firms scurrying to revamp their big econometric models to make them compatible with the new data. "What we're demonstrating here is that growth isn't a number. It's one thing in 1987 dollars, and it's another with chain weights," says Edward McKelvey of Goldman, Sachs & Co.

Indeed, some economists don't believe the new stats give an accurate picture. Conceptually, everyone agrees that switching to chain-weighted GDP is the theoretically pure thing to do. But GDP will still be far from perfect. "It may take Commerce a few more years to catch on to the productivity miracle of America, but the gains are really happening," says Joseph Carson, chief economist at Dean Witter Reynolds Inc. (page 78).

Carson and others argue that removing the substitution bias is fine, but that adjusting for price changes without an adjustment in quality changes, especially in telecommunications and services, ends up understating growth. Moreover, Corporate America's massive investment in computers has begun to pay off, say many economists, as companies replace thousands of workers with computerized technologies. This is particularly true of service output, which government surveys grossly undercount.

Some economists worry about how the public, especially investors, will greet the new GDP data, whose parts will no longer sum to the total. Making matters potentially worse, the BEA may fudge the dollar equivalents of the chain-weighted indexes to make everything add up. Erich Heinemann, chief economist for Ladenburg, Thalmann & Co., goes so far as to say: "I think Congress should hold hearings to assure the public that the Commerce Dept. will not create more problems than it will solve."

If Kuznets were alive today, he probably would applaud the new chain-weighted GDP as an improvement. But paradoxically, under the new method of adding up GDP, perceptions about this economy don't add up anymore.

By James C. Cooper and Aaron Bernstein in New York

WHAT THE NEW NUMBERS COULD MEAN

- The nation's wealth won't increase as rapidly
- Wages and living standards will grow more slowly
- The Federal Reserve Board won't be able to cut interest rates as easily

DATA: BUSINESS WEEK

See Commentary, page 78

COMMENTARY

By Christopher Farrell

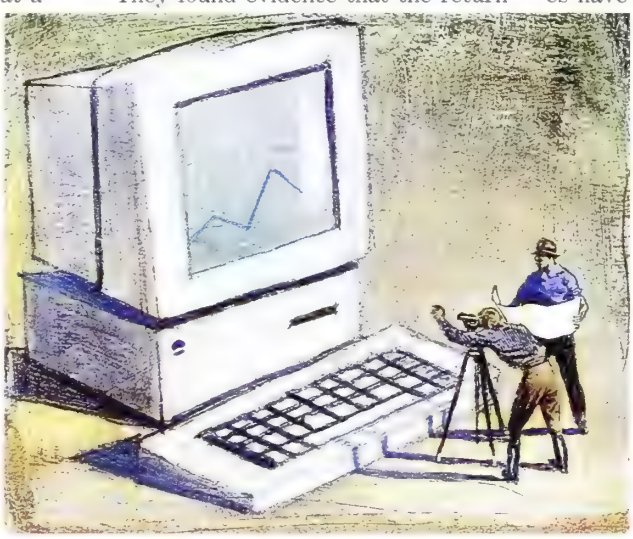
WHY THE NUMBERS MISS THE POINT

No matter where you look, computers, software, and telecommunications are transforming the way Americans work. In 1966, the best transatlantic phone cable could carry simultaneously 138 conversations between Europe and North America. Today, fiber-optic cables carry thousands of times more traffic. At least half the workforce now uses computers on the job. Information technologies seem to be paying off big. In the 1990s, productivity has been rising at a 1.9% annual rate, double the pace of the previous two decades.

Yet now, largely because of a chain reaction set off by an adjustment in the method used to calculate computer prices, government statisticians are sharply lowering their estimates of productivity growth to a 1.3% pace in the '90s. After adjusting for business cycle fluctuations, that means productivity grew at a pace little better than that of the '70s and '80s. In other words, despite nearly two decades of restructuring, investing huge sums in high-tech equipment, and the remarkable resurgence in U. S. corporate profits and global market share, the productivity improvement amounts to a big fat zero.

NEW RULES. Hold off on the pessimism, please—and not because these are preliminary numbers that most likely will be revised. The reason is more fundamental. What matters is not how many computer boxes are coming off the assembly lines, but the extent to which information technology is rewriting the rules of business, spurring technological progress, and creating economic wealth, says Timothy F. Bresnahan, economist at Stanford University. As the Industrial Era gives way to the Information Age, new products, new ideas, and new technologies are transforming the economy in ways the statistics aren't capturing.

The signs of a seismic shift are all around us. Supermarkets and bar codes. Banks and ATM machines. Lotus Notes and groupware. In industry after industry, information technologies have inspired innovations, raised efficiencies, lowered prices, and hiked profits. Professor Erik Brynjolfsson and graduate student Lorin M. Hitt of Massachusetts Institute of Technology surveyed almost 400 large companies to measure the effect of investment in information technology on output per employee. They found evidence that the return on investment in information systems could exceed 50% and that such systems have led to improvements in product quality, product variety, and customer service. "Many of the benefits of information technologies are not captured by the official measures and don't show up in GDP," says Brynjolfsson.



The Information Revolution is transforming the economy in ways the statistics aren't capturing

Investment is an engine of growth, and the government's numbers miss a big chunk of high-tech investment. For example, business purchases of software aren't included under investment (except for software sold with computer hardware). Instead, they're treated like pencils and paper clips. Yet corporate purchases of package software rose from $7.4 billion in 1983 to $51 billion in 1994, according to Sentry Market Research in Westborough, Mass.

The mismeasurement goes further. With the exception of computers, the latest figures only pick up a fraction of the price and quality changes in most high-tech products. The official data show prices of business and home telecom equipment are up by 4.4% since 1991. Yet prices have come down on everything from central office switching equipment to the equipment needed to run computer networks. For instance, average fax machine prices dropped 28% over the past four years even as quality advanced, according to Personal Technology Research, a consulting firm in Waltham, Mass. The upshot: By missing these price drops, the government understates the widespread use of new technologies and, ultimately, GDP.

OFF THE GAUGES. The productivity improvement that is so evident in Corporate America is not showing up in the numbers because much of it is coming in the information and services sectors of the economy, where productivity is daunting to gauge. In the early post-World War II era, about half the economy was easily measured; by 1990, the fraction of the economy for which the productivity numbers were reasonable was less than one-third, according to Zvi Griliches, economist at Harvard University.

Economic measures capture run-of-the-mill changes in activity. But they have always fallen short in dealing with paradigm shifts. We are living in a new era driven by information technologies. The U. S. is a lot stronger than the government numbers are now telling us.

Farrell covers economics.

PUTERS

OMPAQ: ALL THINGS O ALL NETWORKS?

PC giant sets its sights on another huge market

was in early 1992 that CEO Eckrd Pfeiffer began telling analysts of goal for Compaq Computer Corp.: overtake IBM as the world's No. 1 er of PCs by 1996. Compaq breezed Pfeiffer's goal two years early. the way, the Houston PC maker comped IBM and other oldtfits in the server market elling inexpensive—but profitable—machines to companies control net- of desktop computers. ks to corporate buyers ontinue to favor Compaq's nd servers, earnings for econd quarter, ended June e expected to rise 19%, 0 million, on a 38% sales to $3.4 billion.

ady results for sure. But ieve Pfeiffer's new goal—twice the market share of aq's nearest rival by -he must take the $11 bilgiant well beyond its PC So, on June 26, Pfeiffer deal with Cisco Systems hat leapfrogs it into the t-growing computer hardmarket: networking. Coms poised to buy its way he market and buy share t gets there. In June, the any was outbid in its efo acquire a computer netng company, tiny Applied Network nologies Inc. in Westford, Mass. on't rule out another target: Comon shareholder approval in May to than triple its shares outstandstaking it to, at current stock pric$34 billion acquisition kitty.

H EDGES. Meanwhile, Compaq has y built up a network engineering narketing staff. It's all in preparaor a jump into the $4 billion mar- the digital modems, routers, and hes favored by small businesses corporate departments. With the facturing might to churn out 3 milPCs a year and with more than 38,000 dealers, a determined Compaq could quickly become a networking giant. Says Robert W. Stearns, vice-president for corporate development: "It's strategically very important to us."

For the companies already in the networking business, the arrival of this 800-pound gorilla could reshape the entire industry. As in the early years of the PC business, the networking market today consists of hundreds of specialized hardware makers. With all that variety, customers are desperate for a way to smooth the rough edges that come with setting up and operating networks. First Interstate National Bank in Phoenix, for example, uses Compaq servers and PCs throughout its main office network, but high costs and difficult installation problems have kept it from installing networks in its remote offices and replacing old terminals. As Timothy E. Sullivan, a senior vice-president for technology planning at First Interstate, says: "The world is looking for anyone who can lower complexity."

In which case the world may well beat a path to Compaq's door. In PCs, the company has long championed standard designs that reduce the complexity quotient. That same adherence to standards also makes it a lot cheaper to build products. Where existing manufacturers of specialized network hardware need 50% gross margins to be successful, Compaq is thriving now on 25% gross margins, says Todd Dagres, a communications technology analyst at Montgomery Securities. Says Compaq's Stearns: "Nobody can make a part cheaper than we can."

UNSNARLED NETS: *The appeal for First Interstate's Sullivan is "lower complexity"*

RELD RAHN

WHERE THE MONEY IS

The niches where Compaq hopes to strike gold

NETWORK ROUTING Long favored by large corporations, this technology is moving into smaller enterprises as a way to streamline the delivery of E-mail messages. Demand is expected to rise 17%, to $1.6 billion, in 1996.

DIGITAL MODEMS Booming portable sales, a more mobile workforce, and Internet wanderlust are pushing remote-access technologies such as digital modems into hypergrowth. Researchers see a $1 billion market by 1998.

NETWORK SWITCHING As smaller networks and video-intensive applications proliferate, advanced switching technology is in demand to take advantage of the full bandwidth of the network. The PC portion of the market is enjoying 50%-plus growth rates and should hit $3 billion by 1999.

DATA: BW, INTERNATIONAL DATA CORP., THE DELL'ORO GROUP

If his boast holds, Compaq stands to make plenty of money: The market for each network segment has phenomenal prospects. Demand for workgroup-oriented network switches, for instance, will rise to $2.9 billion in 1999, up from $77 million this year, estimates Dell'Oro Group, a market researcher. Compaq won't disclose its revenue goals, but marketing manager Ed Reynolds says: "I have high expectations for this business."

Compaq's plan is to ease into networking with the customers it knows best: the small and midsize businesses that are its biggest PC buyers. Many of these long ago installed local-area

networks, but Compaq is anticipating that those loops are just now requiring upgrades such as routers, which direct messages among groups of PCs, and network switches, to boost performance. Compaq is counting on these businesses to want network capabilities eventually built into the server.

Still, some customers and analysts believe the company is split over how aggressively it should pursue the network market. Where Compaq once projected a market entry in 1994, it now won't bring out its first product until 1996. Says Francis X. Dzubeck, CEO of network consultants Communications Network Architects Inc.: "Compaq is taking too much time to decide what to do."

LASER BURN. Compaq's Stearns says that there's no dispute over the approach and that the business launch is "on schedule." The company is well into developing a series of networking products that will be released over the next two years. It has already completed development with Texas Instruments Inc. of a new networking chip to be built into some of its computers. And, says Stearns, rather than try to build a stand-alone network business, Compaq's idea is to use networks to push sales of servers and portable computers.

To make a lasting mark in networking, analysts say Compaq will have to take a strong tack. Last year, it quit the laser printer business after deciding it could not unseat Hewlett-Packard Co.'s hold on customers and dealers. Now, HP and leading network maker 3Com Corp. are slashing prices on their networking products to preempt Compaq from using price to make its move. "I don't believe Compaq could build or distribute our products better or at a lower price than we can," says Eric A. Benhamou, CEO of 3Com. "They will have to spend a lot more on R&D in networking than building a PC."

There are signs that Compaq will spend more on an acquisition as a fast way to build momentum in the network business. Working with consultants McKinsey & Co., the company tried last month to acquire Applied Network Technologies, a privately held developer of small-group network switches, for an undisclosed amount. Fore Systems Inc. outbid it, spending $35 million to buy the company, according to Charles Federman, a managing director at merger specialists Broadview Associates. Now, with some 700 million new shares at its disposal, Compaq may be thinking of bigger deals. Especially if Pfeiffer wants to keep hitting his goals ahead of schedule.

By Gary McWilliams in Houston

INFORMATION MANAGEMENT

A TRILLION-BYTE WEAPON

Marketers use massive computer power to woo customer

Every day, Bank of America's phone reps field about 100,000 calls from customers wanting to check a balance, dispute a charge-card bill, or ask about loan rates. Once they're on the line, reckons Luke S. Helms, vice-chairman in charge of retail banking, "why not sell them something?" Something tailored to each customer's needs: If they have been inadvertently bouncing checks, say, maybe they'll go for overdraft protection. If they have more than 20% of their savings in a passbook account, a higher-interest product might do the trick.

How can America's largest retail bank know exactly what products to pitch to whom? Easy. It just reaches into its "corporate data store," or data warehouse—a bunch of superpowerful computers crammed with details about its customers' banking activities over the past five years. Based on gear from AT&T, the system consolidates 35 million records collected by separate computers that handle daily checking, savings, and other transactions. The resulting database—containing 800 billion characters of data—yields so much insight into customers' behavior, Helms says, that "it's like you're cheating."

CROSS REFERENCE. But data warehousing is hardly cheating. Instead, it's the biggest trend in information management today. This is the technology that may finally deliver on a dream pursued by management theorists since the 1960s: First, collect in one database immense volumes of information detailing every aspect of a company's operations—from daily cash register and A transactions to orders, factory outpu inventories, shipments, and financial counting records. Then cross-index that data, put lots of computing pow behind it, and the resulting warehou can give managers, from the CEO down, "any view of the data they c conceive of," says Tammy Lowe, assi ant director of management informati systems at Burlington Coat Facto Warehouse Corp., a discount retail clo ing chain.

For several years now, Burlingt has lived and died by this scheme. I business is built on a 1.5 trillion-by data warehouse, running on a clust of eight superminicomputers from S quent Computer Systems. Every da managers all over the company tap in the system to identify top-selling styl and brands, balance regional invent ries, measure the performance of o store manager against others—esse tially, to learn more about practicall anything that interests them that da By comparing reams of demograph data, historical buying patterns, an sales trends in existing stores, for i stance, Burlington can even determin just where to open its next store an what to stock it with. Data warehousin "is how we're growing the business. W can operate more efficiently becaus we're aware of exactly what's happer ing," says Lowe.

Thanks to that kind of lavish testim nial, data warehousing has become on of the killer applications driving deman for large-scale parallel computers. Thes

BUILDING DATA WAREHOUSES

Many companies are rushing to supply the specialized hardware and software needed to store masses of data

DATA PREPARATION SOFTWARE Prism Solutions, Innovative Systems

PARALLEL COMPUTERS IBM, Unisys, Cray Research, Siemens/Pyramid, AT&T, Sequent Computer

DATABASE SOFTWARE Sybase, Informix, Oracle, Red Brick, AT&T/Teradata, IBM

ANALYTIC SOFTWARE Prodea, Brio Technology, Arbor Software

nes, which gang together dozens en hundreds of high-performance processors, are the only computers nough and cheap enough to run ex analyses against billions of of data. They're also able to store rocess information at a tenth of st or less of a huge mainframe.

e John Alden Life Insurance Co.'s lata warehouse. It's being loaded four years of detailed medical —close to 150 billion bytes of in- tion cross-indexed every which f all this info were analyzed on a ame, then comparing how hospital rks in New Jersey and Illinois, reat hip replacements—listing all al procedures, tests, and prescrip- —would tie up the machine all But a 24-processor IBM SP2 com- will do the job in "tens of min- says Sullivan B. McConnell, in- ion systems manager. That kind of is critical for John Alden, which stantly trying to measure and re quality of care, profitabil- nd other factors in the s regions where it oper- 'Health care is getting complex," says nnell. "We have to quicker busi- lecisions."

e vast power rallel pro- g is useful o ways. It elp scan a database tems that some set of ia—custom- ho have tak- t a loan in the hree years, earn than $50,000, and n Arizona, say. In cases, the computer nine" masses of data in n of unanticipated pat- and relationships. Super- et chains regularly ana- reams of cash register o discover what items ners are typically buy- t the same time— ing patterns that e exploited by al- floor and shelf s.

help, computer rs such as IBM, ett-Packard, and al Equipment rushing into warehousing parallel ters that iced at $100,000 and up. Companies such as Red Brick Systems, Arbor, Prodea, Oracle, and Prism Solutions are supplying warehousing software that extracts data from mainframes, cross-indexes it for rapid searching, and finally analyzes and presents the results. With 90% of large companies now building or planning to build data warehouses, according to Price Waterhouse, the total market will likely top $20 billion by 2000.

Companies are scrambling to exploit the concept, including American Airlines, Citibank, and Mervyn's department stores. Bass Taverns, a division of Bass PLC, is testing a new parallel computer from Unisys Corp., called OPUS, for monitoring sales and profit trends at some 4,500 British pubs. In the past, Bass's ad campaigns were often completed before its managers could see whether or not they had paid off. Now, by analyzing sales data gathered daily from hundreds of pubs' cash registers, a campaign's effectiveness can be monitored while it's in progress—and shipments of bitter ale and vinegar crisps kept moving at just the right pace. Says Brian R. Wilson, information technology director: "The more information, the merrier."

McKesson Corp., a wholesale distributor to drugstores, is using a data warehouse to cope with what had become a computing nightmare. Each day, the company receives orders that break down to more than 1 million line items, each one of which refers to one of the 100,000 stock units it keeps on hand in 30-plus warehouses. To make matters worse, the price for a particular item is often determined by a unique deal the retailer has struck directly with the product's maker. McKesson had struggled to keep track of this morass using a handful of old mainframes. But because the data was split among disparate machines, it was difficult to view it as one.

PERSONAL CALLING PLANS? So McKesson has turned to a parallel computer from Pyramid Technology Corp., a unit of Siemens of Germany. It consolidates data from each of the mainframes and lets managers throughout the company analyze any or all of it as they choose. Sales representatives can run a query and be able to tell Revlon Inc., for instance, just how its cosmetics are moving in a certain region or set of retail outlets—a good way for McKesson to differentiate itself from the competition.

Perhaps the biggest data warehousers are telephone companies. MCI Communications Corp., the long-distance carrier, now sifts through 1 trillion bytes of customer phoning data to fine-tune its marketing campaigns and formulate new discount-calling plans. Ben C. Barnes, an IBM vice-president, says he's talking with an unidentified phone company that's thinking of using a 420-processor IBM SP2 computer to sift through more than 4 trillion bytes of such records. The goal: devise discount-calling plans for individual customers, not just for aggregate groups.

With competition mounting in every industry, data warehousing is the latest must-have marketing weapon—a way to learn more about customers' needs and how to hang on to them. "Everybody wants into the finance business—General Motors, General Electric, Microsoft, Charles Schwab," says Bank of America's Helms. To keep its head start, the bank is bulking up its marketing muscle with ultrafast parallel computers from Cray Research Inc., the king of supercomputing. Working in combination with the AT&T computers already in place, the Crays will grind through more data even faster—and, the bank hopes, identify more profitable sales opportunities before the competition does. And so begins yet another round of digital one-upmanship, the force that has been driving computer sales since Day One.

By John W. Verity in New York, with Russell Mitchell in San Francisco

One database, properly organized, can give managers "any view of the data they can conceive of"

RATEGIES

OLISHING UP HE CUBIC ZIRCONIA

l new, upscale packaging put the luster back into HSN?

ome Shopping Network Inc. has something a lot tougher to sell fake diamonds: It s to convince shareers that it can bring kle back to its shopelevision business. ults for the second ter were dismal, with s of $9.7 million and les decline of 10%. s in some new areas ked even worse re- in the company's TV shopping busi-, where sales fell by in the second quarafter an 18% drop in irst quarter.

ed by Chief Execu- Gerald F. Hogan and ecruit from Lands' End, chief oper- officer David F. Dyer, HSN is in midst of a painful two-year transfor- on to shed its cubic-zirconia image. offering a higher-quality service, hope to boost sales from the com- 's already-large customer base. Con- ed in the 1980s as novelty program- that thrived on crude hucksterism, Clearwater (Fla.)-based company is mpting to remake itself as a sophis- ed merchandiser. On Aug. 5, HSN unveil a new on-air look with friend- tchen and living room sets, a spiffi- go, and programs for new products as housewares and apparel.

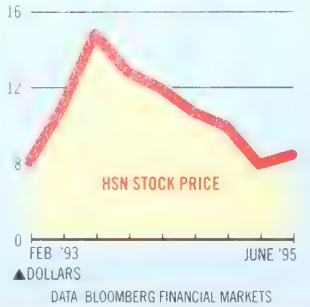
lready, new softer-sell programs are acing the old auction-style jewelry- -revolving-pedestal standby. But so he new formats seem to have alien- people drawn to HSN's old bargain- ment style without bringing in new ers to replace them. Analysts and stors, who have pounded the stock most half what it was shortly after an joined the company in early 1993, watching closely for a promised around by the end of the year. "A f the moves they've made are positioning the company effectively, but we're still waiting," says John Tinker, an analyst with Furman Selz Inc.

IMAGE MAKERS: *Dyer and Hogan don't have forever*

When it debuted nationally in 1986, HSN concentrated on closeouts and overruns. But better inventory management by manufacturers shrank sources of quality merchandise. Moreover, HSN concentrated on price at the expense of quality and customer loyalty, acquiring an image of cheap, inferior merchandise and lousy customer service. HSN reaches 67 million households, but its sales have stagnated for the last five years at roughly $1 billion. Rival QVC Inc., which reaches fewer homes, boasts sales of $1.4 billion, almost double 1990's $776 million. "It was not sustainable," says Hogan of HSN's mode of doing business. "It was broken, and we had to fix it."

He and Dyer don't have forever. John Malone, president of HSN's controlling shareholder, TeleCommunications Inc., is said to be growing impatient. It's not hard for Malone to compare HSN's performance to the competition. TCI, which controls 80% of the voting rights at HSN, also owns 43% of QVC, which throws off more cash flow, and as a cable-only operation, can operate more cheaply than HSN. If Hogan and Dyer fail to deliver results by year-end, some analysts speculate that TCI might try to merge the two home-shopping companies. TCI wouldn't comment, but Hogan doesn't dispute the pressure.

INVESTORS AREN'T BUYING HOME SHOPPING



DATA BLOOMBERG FINANCIAL MARKETS

SHADY DEALS. Brought in when cable giant TCI bought control of HSN in early 1993, Hogan boasted solid experience in cable television. At HSN, he took over a company in crisis. Morale was at rock-bottom. The U.S. Attorney's Office in Tampa was investigating allegations of fraud and favoritism in HSN's buying practices. Charges were never brought, but Hogan was forced to deal with a slew of shareholder lawsuits. Then came merger talks with QVC, scuttled months later when then-QVC Chief Executive Barry Diller pursued Paramount Communications Inc. and lost. After cleaning house, Hogan looked outside the TV industry and last fall brought in Dyer to revamp HSN.

Part of Dyer's mission is to transform HSN from a company that sells to a company that markets. He has put together a merchandising, design, and quality control team hired from such retailers as Banana Republic, Spiegel, and Lands' End. A stickler for details, Dyer personally oversaw the design of new packaging. "You have to sell customers twice," he says. "Once when they buy it over the air, and once when they open it at home—did they get more than they thought?" Now HSN jewelry is likely to arrive in reusable keepsake boxes. Hosiery is packed in color coded containers good for organizing sock drawers.

Dyer has worked hard to overcome HSN's image problems and bring in brand-name merchandise from manufacturers that had long shunned HSN. Viewers can now order Etienne Aigner handbags and shoes. London Fog Industries Inc.'s and Evan Picone coats are scheduled for fall showings along with housewares sporting

Corning Inc., Cuisinart Inc., and other well-known labels. HSN will also add private label apparel and housewares.

HSN is also experimenting in cyberspace. In addition to ventures with CompuServe, Prodigy, and now America Online, HSN last year bought the Internet Shopping Network, a popular commercial site on the Internet. And when Microsoft Corp.'s Windows 95 debuts, HSN will be included in the new online service that will be part of the launch. Though the online ventures have yet to break even, they give HSN a toe-hold for the future.

In the meantime, HSN has to get its TV shopping back on track. The poor showing in the most recent quarter is partly due to inventory clearance to make room for new products. But there have been missteps, too. New programs aimed at kids and men were flops. Other innovations have yet to pay off. Recently, HSN added item numbers, allowing customers to take their time and order a product even after it's off the screen, as QVC does. But, Hogan concedes, that new approach has cost the company some impulse sales. HSN will retain some of the old auction format on its second channel, HSN Spree.

WHO'S BUYING? Hogan argues the changes being put in place now will help build better long-term relationships with customers. HSN's viewers tend to be 40- to-50-year-old women with household incomes of $45,000—roughly the same universe QVC reaches. Hogan hopes the new programs and formats will pull in some younger viewers, but the emphasis is on getting more business from existing customers. A staggering 17 million people have ordered one time only from HSN, hence the new emphasis on customer satisfaction. "We're not trying to change the demographics," says Dyer. "But we have undermerchandised."

To help win higher-spending customers, HSN is embarking on a $20 million advertising campaign, using spots on other cable stations as well as spreads in women's magazines. There are signs that some new viewers have noticed the changes already in place.

Rena Sager, an avid QVC shopper from Rockaway Township, N.J., disliked the old, brash HSN sales pitch, but lately has found herself tuning into HSN more often, drawn to the new formats. Recently, she bought a pair of gold earrings, packaged this time in a velvet box instead of the usual plastic bag. "It has gotten somewhat better," she says. "It's a little better quality." It will take many more shoppers like Rena Sager to see if HSN has found its way.

By Gail DeGeorge in Clearwater, Fla., and Lori Bongiorno in New York

TAXES

'DEATH TO THE IRS'

GOP tax reformers are tapping into public resentment

When Jerome Rodder of Los Altos, Calif., got the notice that his tax return was up for audit, he knew the routine. Two previous examinations had prepared the 67-year-old inventor and real-estate investor for the grinding drill. But after investing 45 hours of his own time and $4,000 in accountant's fees, Rodder balked at an IRS form demanding that he document such personal spending as restaurant and laundry bills. "I'm not a tax protester," grouses Rodder, who paid $6,000—about 10% of his annual tax bill—to settle. "But they had better never come near me with that form again. There must be a lot of people as angry as me."

There are. And they're being heard. As Congress crusades to overhaul the tax system, it's aiming heavy artillery at the beleaguered agency that collects the taxes—the Internal Revenue Service. "We need a tax system that doesn't require a government agency poking into the private affairs of every American citizen," declares Representative Bill Archer (R-Tex.), chairman of the tax-writing House Ways & Means Committee. Archer wants to replace the income tax with a national sales tax collected by the states—eliminating the IRS.

Dream on. The tax collector will always be with us. But congressional proposals to tax consumption instead of income could radically curb the IRS's role in American life. Such reform plans could wipe out many of the most vexing and audit-prone portions of the tax code: itemized deductions, personal taxes on interest income, dividends, capital gains, and the complicated rules businesses face on depreciation and pensions.

Under a flat-tax proposal championed by House Majority Leader Richard Armey (R-Tex.), for instance, "you not only can fit your tax return on a postcard—you can practically put the whole tax code on one page," says economis Bruce Bartlett of the National Cente for Policy Analysis.

As the forms shrink, so would th IRS's 112,000-strong workforce and it $7.5 billion budget. A simpler cod would require fewer lawyers to writ regulations, fewer phone operators t answer taxpayer questions, and fewe clerks to handle returns. Taxpayer would save money, too: Tax Foundatio analyst Arthur Hall estimates tha Armey's plan would cut individuals' an businesses' tax-compliance costs fro $140 billion a year to $8.4 billion.

PORTRAIT OF A BUREAUCR

More complicat rules, more pen for taxpayers, plenty of uncoll taxes

The IRS may have only itself to blame for being such a fat political target. In five of the past six federal budgets, lawmakers boosted allocations to the IRS for compliance, figuring the investment would yield a profit. But the increase in spending hasn't resulted in the promised revenue. The audit rate continues to fall—only 1.08% of individual returns are examined—and tax debts on the IRS's books grew by 80%, to $156 billion, from 1990 to 1994.

IRS officials vow to do better. Commissioner Margaret M. Richardson says 5,000 new employees, hired with $405 million in extra 1995 funding, are starting to reap a promised $9 billion in added collections. A $23 billion program to replace a 1960s-vintage computer system will improve monitoring of taxpayers' accounts. And electronic filing could

This fall, the IRS will target over 150,0

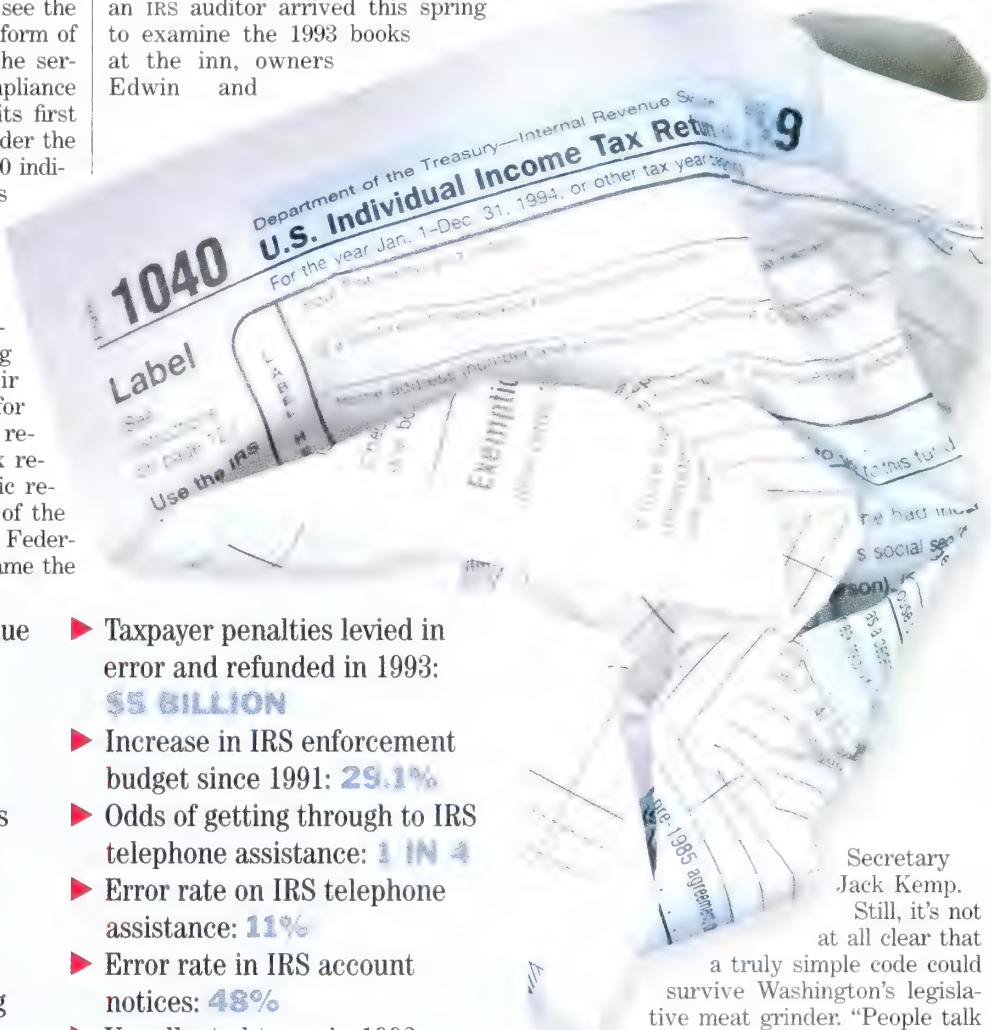
y reduce IRS error rates: Almost 5
ı users of the simple 1040EZ form
e able to "telefile" from a Touch-
phone next spring, while millions
will report their taxes via per-
computer. "We're moving to a sys-
hat's very different from the way
d business even a few years ago,"
rdson says.

st, however, taxpayers will see the
ndly face of the IRS in the form of
ed-up auditing. This fall, the ser-
olls out its Taxpayer Compliance
rement Program audits, its first
iance audits since 1988. Under the
am, the IRS will pick 153,000 indi-
and business tax returns
ndom for line-by-line ex-
tion. The resulting data
l guide the IRS toward the
likely areas for cheating.
payers who endure the har-
g experience of justifying
lly every figure on their
will become Exhibit A for
r, Armey, and other GOP re-
rs building support for tax re-
by tapping into deep public re-
ent against the IRS. Polls of the
0 members of the National Feder-
of Independent Business name the

unreported income. "People are aghast that a government agency will be looking into your underwear drawer and asking your neighbors to monitor your lifestyle," says Stephen Moore, director of fiscal studies at the libertarian Cato Institute.

Case in point: the Green Glen Bed & Breakfast in East Aurora, N. Y. When an IRS auditor arrived this spring to examine the 1993 books at the inn, owners Edwin and Martha Collins answered every query with meticulous records. Yet the examiner insisted the Collinses had underpaid by $540, claiming they'd spent too much on food for their guests' laundry and cleaning services. "Is the tax service going to be telling us what we can serve, how we should clean, and what grade of detergent we should use?" asks Ed Collins. "The intrusiveness is just mind-boggling." The audit is still unsettled.

Some IRS critics maintain that it's the tax code, not the agency, that's the real problem. "The current tax system is so complex that it's very difficult for the IRS to administer taxes effectively," says Shirley D. Peterson, president of Hood College and a former IRS commissioner. Peterson wants to start over with a new code, which she hopes to help write as a member of a GOP panel chaired by former Housing & Urban Development Secretary Jack Kemp.



ount for Internal Revenue
aw and regulations:
00

x forms added since
00

n in number of penalties
ed, 1980-93: 68%

r of notices and exam
sent each year:
MILLION

r of taxpayers receiving
y notices in 1994:
LLION

- Taxpayer penalties levied in error and refunded in 1993: $5 BILLION
- Increase in IRS enforcement budget since 1991: 29.1%
- Odds of getting through to IRS telephone assistance: 1 IN 4
- Error rate on IRS telephone assistance: 11%
- Error rate in IRS account notices: 48%
- Uncollected taxes in 1992: $127 BILLION

DATA: INTERNAL REVENUE SERVICE, GENERAL ACCOUNTING OFFICE

eir most hated agency. When Pres-
Clinton bragged about his efforts
red tape, delegates at a June
House Conference on Small Busi-
heckled him with shouts of "IRS!

anger is based on a growing be-
nong Americans that Washington
intrusive. In one new IRS tactic,
ors are trained to rely more on
omic reality"—studying a taxpay-
ome, vacation, entertainment, and
health spending—for evidence of

Still, it's not at all clear that a truly simple code could survive Washington's legislative meat grinder. "People talk about the importance of simplicity—until it hits them in the wallet," says former IRS Commissioner Lawrence B. Gibbs. Once Congress starts debating reform in earnest in 1997, wage earners will object to plans that let investors off scot-free, while homeowners, charities, and local governments will demand relief from the pain of losing deductions.

Any new code, of course, could well end up as convoluted as the current tax law. But tax revolutionaries know they have a powerful rallying cry—"Death to the IRS!"—and they plan to milk it for all it's worth.

By Mike McNamee in Washington

idual and business returns for line-by-line audits

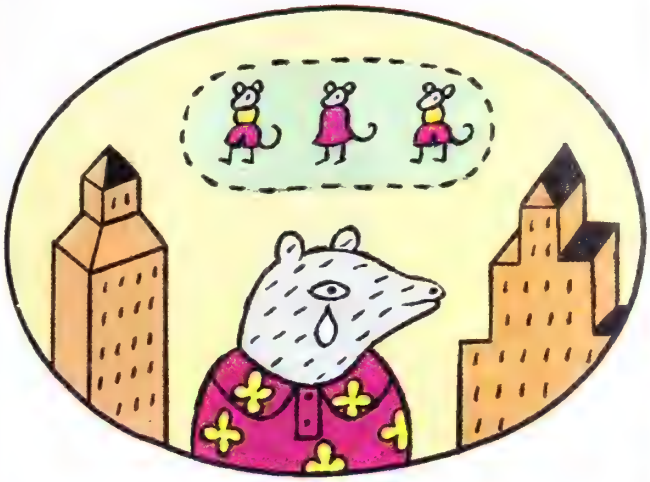
ED BY NEIL GROSS

FTING SOFTWARE ES COMMERCIAL

MORE THAN 15 YEARS, ops in the U. S. intel- nce community have n teaching "neural works" to comb ough vast streams of tronic traffic. The ware excels at spot- tidbits that can tip balance in political otiations and military frontations.

Iow, these intelligence- nering capabilities are ding into the business ld. David C. Hopp- n formed Intell. X ier this year when he ized the technology ld be better at filter- business information intelligent programs wn as software ents." Agents can mit- e information overload earning to take on ine chores, such as shing unwanted E- l, says chief technolo- Jeffrey P. Massa, for- ly of the National urity Council. But 're based on rules, can't learn much 's really new. Neural start with a clean e. They can "learn t information fits to- ner, and why, without ding human interven- ," says Massa.

nitially, the Intell. X ware will help Data- es Corp., Intell. X's ent, sift through data aming daily through DataTimes database select only the most tinent information for cific customers. This Intell. X will unveil ther program, called mmarizer, that will di- E-mail and create a opsis to help managers ide which messages to l in full.



THE ULTIMATE MOUSETRAP

SCIENTISTS AT THE SCRIPPS RESEARCH INSTITUTE IN LA JOLLA, Calif., say they have a nifty way to lower populations of rodents that cause crop damage and diseases: birth control. Molecular biologist Jeffrey Bleil and his colleagues have identified the protein receptor on mice sperm that permits them to recognize and to attach to the female egg. When male mice are fed synthetic copies of this protein, called sp56, the protein prods the animals' immune systems to mount an attack against it—and against the sperm cells that bear the genuine receptor.

One dose of the protein seems to render both male and female mice sterile for weeks to months at a stretch. It also works for rats and hamsters, which have the sp56 protein on their sperm. Humans lack this protein. So, even if a person accidentally ingested it, the protein would have no effect. But Bleil thinks human sperm may have some equivalent receptor. Its identification could lead to a new form of contraception. In mice, at least, there seem to be no side effects.

INNOVATIONS

■ For 60 years, a Dow Chemical Co. cellulose derivative called Ethocel has been used to make everything from plastic water canteens to controlled-release agents for prescription drugs. Now, Dow is thinking about an edible version. The idea is to exploit Ethocel's film-forming qualities to bind mineral supplements to rice, which governments in poor countries could distribute to help combat malnutrition.

■ The U. S. Air Force is taking virtual reality to new heights. A lab at Wright-Patterson Air Force Base in Ohio is using Silicon Graphics Inc. computing power to cover a 35-foot-high dome with high-resolution images (below). The goal: to simulate cockpit experiences that will prepare pilots for the 21st century.

FROM NEVADA, A CHILLING DEVELOPMENT

MOST AIR CONDITIONERS AND refrigerators are complex beasts, dependent on motors and whirring compressors. But Uwe Rockenfeller, president and CEO at Rocky Research in Boulder City, Nev., thinks there's a simpler way to stay cool. For the past 10 years, he and his company have been developing a radical chilling technology, with support from the Pentagon's Ballistic Missile Defense Organization.

The process involves suffusing a refrigerant—in this case, ammonia—into a complex solid chemical in a vessel equipped with a heating element. When the temperature of the solid is raised, the ammonia diffuses out, condenses, and then evaporates to provide cooling. The ammonia gas is then absorbed back into another hunk of the solid chemical in a separate vessel, where it can be heated to start the cycle over again. "There are no moving parts, no service required, and no noise," says Rockenfeller.

Now the technology is about to hit the market. Partner FMC Corp. has begun making vending machines that incorporate this cooling method, and in about six months, Igloo Products Corp. will begin selling a small portable cooler. But that may be just the beginning. Rockenfeller and his 23 employees are developing systems to cool computer chips and medical devices. They are testing a chiller for assembly lines at a Dove Bar ice cream plant and a Sara Lee Corp. turkey-processing factory. For the future, Rockenfeller envisions suits for firefighters and other emergency workers that would keep them cool even in a raging fire.

ILLUSTRATION BY MARK BERRY


Network

CABLE TV

CHANNEL-SURFING'S NEXT WAVE

Henry Yuen's interactive TV guide takes on TCI and Viacom

Henry C. Yuen is no couch potato. But he made his fortune giving them what they want. The 47-year-old mathematician-lawyer-entrepreneur co-invented VCR Plus, the hot box that millions of people use to program their VCRs just by punching in numbers from newspaper listings.

Now, Yuen has a better idea. He wants to put program listings and descriptions right on the TV screen so viewers can better surf through the ocean of shows on today—and on the 500-channel tidal wave that could break soon. Called GUIDE Plus, Yuen's system also lets users set their VCRs by clicking one button on the remote control.

UNFAZED. It's a smashing idea. But things have changed since Yuen launched VCR Plus in 1990. This time, Yuen's upstart Pasadena (Calif.) company—Gemstar Development Corp.—is up against the cable industry's deepest pockets. And onscreen guides seem to be on almost everyone's mind. Out in front, there's StarSight Telecast Inc., whose investors include Viacom, Cox Communications, and KBLCOM. Rupert Murdoch's News Corp. and cable giant Tele-Communications Inc. (TCI) are developing an interactive, onscreen version of *TV Guide*. And TCI plans to purchase United Video Satellite Group in Tulsa, Okla., which supplies more than 3,000 cable systems with the Prevue Channel. It offers a scrolling list of what's showing now, but United is planning an interactive version. "There's a blizzard of competing technology that will be pursuing the technophobic consumer," says market researcher Peter W. Hankin of Ryan Hankin Kent Inc. in South San Francisco.

YUEN: *Offering the only one that won't cost consumers a fee*

Yuen is unfazed by the competition. For one thing, Gemstar's is the only interactive program guide that won't cost consumers a subscription fee. For another, he plans to bypass the cable industry completely, by licensing the technology needed to capture and display program information to makers of TV sets and VCRs. Gemstar has signed some 80 local TV stations to broadcast the listings. And in May, Yuen persuaded Capitol Cities/ABC to carry them nationally and virtually for free in exchange for letting ABC occupy the top line on the program guide. Gemstar has licensed most TV-set makers, Yuen says. He expects the first TVs with GUIDE Plus to hit the market next spring.

If anyone can pull this off, it's Yuen—a spry, wiry man associates admire for his boundless energy. Raised in Hong Kong, he came to the U. S. for college and stayed. With a PhD from California Institute of Technology in hand, he signed up with TRW Inc. and soon distinguished himself by describing how ocean waves look to radar from space. Along the way, he got a law degree and set up a thriving practice in the 1980s, negotiating business deals for Asian clients. Even as VCR Plus was launched in 1990, Yuen was still commuting between TRW and Gemstar. "I've always had the bad habit of taking on more than one full-time job at a time," he says.

He'll need that stamina to win the race to give consumers their first taste of interactive TV, one of the most visible signposts of the Infobahn. And Yuen admits that StarSight has a head start. Since last summer, the Fremont (Calif.) company's guide has been built into high-end Zenith TVs, and now, it's in Mitsubishi TVs and Samsung VCRs, too.

Yuen and his supporters play down StarSight's early lead. Its revenues since the system's launch totaled only $288,000 through Mar. 31, while losses since the company's 1986 inception stand at $68 million. StarSight is counting on cable operators to broadcast its electronic guide and collect a monthly fee of about $4.35 from each viewer. But there's no guarantee viewers will be amenable.

Yuen's privately held Gemstar has also had its share of setbacks, but it's generally better off. An aborted initial public offering last year revealed that revenues had leveled off at $66 million a

How Two Interactive Onscreen Guides Stack Up

	GUIDE PLUS	STARSIGHT
AVAILABILITY	Spring '96	Now
PRICE	Free	$4.35/mo.
PROGRAM LISTINGS	2 days full, 7 days in sorted categories	7 days full
DISPLAY	List	Grid
TRANSMISSION	ABC	PBS
ONE-BUTTON VCR RECORDING	Yes	Yes
SOLD IN	TVs, VCRs	TVs, VCRs, set-top boxes

PHOTOGRAPH BY STEVE LEWIS

GNORANCE IS BLISS.

(AND NOW AN OPPOSING VIEW.)

At First Interstate Bank, we believe the best way for us to service your business is to, well, get to know it. And to get to know you.

In fact, the more that we know, the better we'll be able to offer the responsiveness and variety of services you really need.

We'd welcome the chance to sit down with you soon. To hear your view.

YOU & FI

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BusinessWeek
EXECUTIVE
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ut license income, which goes di- to the bottom line, grew to 41% al profits in the year ending 1994, compared with 14% a year If that growth continues, inves- uld do an IPO in the near future. n the StarSight and Gemstar work by piggybacking listings scriptions on the vertical blanking l of the broadcast signal. That's rk band that appears between if the TV set's vertical-hold con- 't adjusted properly. At present, erval carries information needed glish-language captioning for the -impaired, required on all TV sets es and larger. But that uses up fraction of the available space.

MEMORY. The systems switch on middle of the night, tune to the ed channel, and download enough r a week's worth of network and programs. This is stored on a y chip in the set-top box or TV onsumers use a special remote to call up and browse through gram guide. They can search for ms by time or channel—or they rch by subject, such as movies or Then, to tape a show, they sim- hlight its title and press record.

To tape a show, a viewer simply highlights it on the guide and hits record

Right now, StarSight's guide is broadcast by PBS stations and Gemstar's is carried by ABC. The biggest difference is price. StarSight's subscription service is aimed at well-heeled viewers who won't mind paying an extra $50 a year for a guide. Gemstar's GUIDE Plus is patterned after VCR Plus: The TV-set maker pays a royalty to Gemstar for every unit shipped. The consumer pays a premium for the TV. But the interactive program guide is free.

The StarSight camp heaps scorn on Gemstar's approach. "[It] doesn't sound like much of a revenue stream to me," sniffs Robert E. Russman, a StarSight senior vice-president. But Yuen stands on his track record. Less than five years after it was introduced, VCR Plus is built into a quarter of all VCRs shipped worldwide. That's worth an estimated $40 million annually to Gemstar, not including revenues for making and selling stand-alone VCR Plus remote controls.

Yuen got the idea for VCR Plus when he tried to tape a Boston Red Sox game and ended up with a videocassette full of snow. He figured that if TV shows were numbered, programming a VCR would be as simple as dialing a phone. His next brainstorm was INDEX Plus, due out this year. Developed with JVC, Panasonic, and Hitachi, it will let VCR users browse through an onscreen list of TV programs that they've already recorded on videotape and fast-forward to the start of a program at a touch of a button.

To capture titles along with programs for INDEX Plus, Yuen had to persuade broadcasters to send program information with the TV signal. From there, it was a short leap to the idea of an interactive guide. With GUIDE Plus, Yuen is looking at a potential market two or three times as large as that for VCRs—some 27 million TV sets a year in the U.S. and as many as 120 million worldwide. That's a lot of couch potatoes—and a big sack of cash for Yuen—even if he makes only a few bucks a pop.

By Larry Armstrong in Los Angeles

EDITED BY AMY DUNKIN

INVESTING IN A BANK-EAT-BANK WORLD

Betting on takeovers, the smart money headed out to Portland, Ore., and Chicago this spring. Investors bid up the Northwest's No. 1 bank, U.S. Bancorp, 23% from January to early May, to above $27. But they got a rude shock on May 8, when the Portland-based company opted instead to buy Boise-based West One Bancorp, a move that sent U.S. Bancorp's shares below $26. Likewise, First Chicago seemed to be a prime target, with its stock galloping from less than $43 last Oct. 5 to more than $60 by mid-July. But on July 12, when Detroit-based NBD Bancorp announced its $5.3 billion merger plan, First Chicago's stock crept up less than $1. Why? The stock swap failed to value First Chicago at a premium.

So much for the smart money. With such disappointments in mind, investors trolling for bargains in bank-takeover plays might want to take a deep breath before diving. Bank stocks have surged on rampant speculation, so quick killings are getting tougher to come by. "It's a dangerous game, trying to buy for takeovers," warns Douglas Pratt, manager of Denver-based Invesco Strategic Financial Services Fund.

To be sure, banks are heavy into an early summer mating frenzy. Pittsburgh-based PNC Bank announced a merger with Midlantic of Edison, N.J., for $2.9 billion, on July 10. Three weeks earlier, First Union in Charlotte, N.C., agreed to pay $5.1 billion for First Fidelity Bancorp, based in Newark, N.J. Securities Data, a merger-tracking firm also in Newark, has logged 213 bank deals worth some $24 billion so far this year—almost equaling 1991's record-setting full-year tally. And an additional 200 or so alliances could yet be made if last year's pace keeps up—and for far more money.

For some lucky investors, the pairings have been matches made in heaven. First Fidelity shareholders had stakes that were worth less than $49 a share in mid-June, so they'll profit nicely from a stock swap with First Union that's valued at about $65 a share. The deal is especially sweet because First Fidelity's stock had traded as low as $40 a share i past year.

But lately, investors built high expectation many bank stocks. The dard & Poor's indexe money-center banks an ings and loans, both u since the beginning year, are outpacing the er S&P 500-stock index hefty 22% itself. The s& jor-regional-bank inde jumped 26% this year

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rather than guessing
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ll be taken out," says
Schmidt, portfolio
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ancock Regional Bank
"You may be living
for a while."

his stage of the game,
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g buyout rumors. For
s, analysts have been
g New York's Chase
tan as takeover bait—
lly since maverick in-
Michael Price has com-
about the company's
mance. Some market
ers are suggesting a
with Chemical Bank,
sstown rival (though
CEO Thomas Labrecque
de it clear he intends
p his bank indepen-
Banks in much-covet-
ton, too, such as Bank
ston and BayBanks,
nost analysts' lists.

better buys might be
n neglected spots such
hville, where portfolio
er Schmidt finds First
can intriguing, or Kan-
y, Mo., home of family-
lled Commerce Banc-

Possible Picks Among Bank Stocks

	STOCK PRICE 7/17/95	52-WEEK HIGH	P/E	COMMENTS
AMSOUTH BANCORP	36	37¼	16.1	Dominant Alabama bank with attractive holdings in fast-growing Florida
BANK OF BOSTON	39⅛	39¾	9.8	Notable franchise in consolidating market; so far, hasn't found a match
CHASE MANHATTAN	51⅛	55¾	9.7	Under pressure from rebellious investors to sell; a subject of takeover rumors
COMMERCE BANCSHARES	32¼	32¼	11.0	Conservative bank in desirable Kansas City, Mo., market
FIRST AMERICAN	37¾	38⅛	10.6	Major player in often-overlooked Nashville, a consolidating region
MERIDIAN BANCORP	37	38½	13.1	Small Pennsylvania-based player in the heart of a merger-prone region
SIGNET BANKING	25¼	25⅝	10.7	Innovative midsize bank in overbanked Virginia
UJB FINANCIAL	33⅝	36¼	12.2	Last midsize New Jersey independent

DATA: CS FIRST BOSTON; JOHN HANCOCK REGIONAL BANK FUND; KEEFE, BRUYETTE & WOODS; UBS SECURITIES; BLOOMBERG FINANCIAL MARKETS

shares. Such banks may prove to be acquisition candidates—but even if they're not, investors won't be hurt, he says.

Running with the herd, these managers argue, is likely to be disappointing. For instance, in the wake of the NBD-First Chicago deal, investors have been flocking to other banks in Michigan. But there's little reason to believe that's where the next big deal will take place. Better to cast about in less-noticed turf, where investors haven't overly boosted the stocks of likely targets.

One rule of thumb some Wall Streeters are using is to seek out prominent regional banks. "There's got to be a franchise there. It's got to be of value to someone," says David Berry, research director at Keefe, Bruyette & Woods. One of his picks is AmSouth Bancorp, a major player in Alabama whose eight-year acquisition spree in fast-growing Florida has left it with a seductive network and digestive difficulties that make for some easy savings by a would-be acquirer. Another is Great Western Financial, the California thrift that also boasts a big presence in Florida and a national home-lending business.

Rarely do bankers hang out a for-sale sign, so their public statements may offer little guidance to takeover-minded investors. But since most deals in the cyclical, heavily leveraged banking industry remain friendly, investors should "stay away from managements that ever say, 'We're never going to sell,'" says UBS Securities Managing Director Gerard Smith.

Advisers also caution that playing takeovers is a bit like venture-capital investing: For every couple of successful investments, four or five don't pay off well. So a portfolio strategy is wise. Indeed, mutual funds such as Hancock Regional Bank Fund, with a total return of about 28% so far this year, allow investors to spread risk. The $1.1 billion Hancock fund holds stakes in some 280 banks and savings and loan associations nationwide, betting on long-term appreciation and merger prospects. A prime pick: First Tennessee National, which, like First American, is located in economically healthy Tennessee.

CLEAR PATH. Still, even with the current surge in bank-stock prices, the long-term risk is probably small. Banking experts say the nation's 10,200 banks may consolidate into as few as 4,000 over the next 10 to 15 years—a process that will be expedited by formal legal clearance for full interstate banking this September. Odds are high that at some point, even many of today's acquirers, whose stocks typically slide after a deal is announced, could themselves become targets. H. Rodgin Cohen, a merger lawyer with expertise in major bank deals, says that "consolidation in this industry has become an economic imperative."

For those with the savvy—and the time—to look past today's fevered headlines, a carefully chosen hand of bank stocks could make for some smart wagers. *Joseph Weber*

INVESTING Playing takeovers is like the venture-capital game: For every one or two hits, there are four or five misses

COLD COMFORT: *Seasonal brews in limited supplies*

SUDS TO SLAKE A SUMMER THIRST

Summertime, and the guzzling is easy: That's a refrain microbrewers across the country hope to hear often this summer. With the arrival of hot, sticky weather comes a new lineup of seasonal suds aimed at helping thirsty throngs keep cool during the dog days.

Consider: In recent months, Miller Brewing's Jacob Leinenkugel Brewing in Chippewa Falls, Wis., brought out Honey Weiss Bier, billed as a "summer refresher with a hint of honey." Pete's Brewing in Palo Alto, Calif., unveiled Pete's Wicked Summer Brew, "an authentic pale ale, with a delicate hint of natural lemon flavor." Boston Beer introduced a summertime entry called Samuel Adams Cherry Wheat, combining a wheat malt ale with cherries. New York-based New Amsterdam claims its Blonde Lager, which made its debut in April accompanied by posters showing a strawberry in a glass of the beer, is ideal with smoked foods and grilled meats at an outdoor barbecue. Meanwhile, Sapporo is marketing a summer beer called Hokkaido Stout Draft.

INNER SHADE. As the names suggest, most summer brews are produced for chugging during the months when the mercury climbs high. Indeed, summer beers follow the microbrewer tradition of seasonal offerings, such things as pumpkin ale in the autumn and chocolate stout in winter. Samuel Adams Cherry Wheat beer, for instance, is scheduled to show up in stores annually, from April to September. Leinenkugel's Honey Weiss has a May-to-August run, while Hokkaido Stout will be available from June to September.

Some popular summertime brews will stick around through all four seasons. New Amsterdam Managing Director Joseph Magliocco says he's so encouraged by early sales of Blonde Lager that the company will try to keep the momentum going through the frostier months. Highly rated Belgian-style Celis White, from Celis Brewery in Austin, Tex., is also available year-round. Celis White, a pungent, cloudy wheat beer—one of my favorites—is suffused with the flavors of coriander and other spices.

Despite the range of character and quality, most summer beers are lighter in color, taste, texture, and alcohol (though not in calories or, at $5 to $10 a six-pack, in price) than their cold-weather counterparts. Wheat beers and pilsner-style beers (pale gold, refreshing lagers) are typically well-suited for warm weather, as are beers that have a hint of fruit in them. The corked Framboise Lambic, imported by Merchant du Vin in Seattle, is a raspberry-flavored dessert ale that some tasters have compared to soda pop.

Most summer suds have something else in common with soft drinks: On steamy day, they taste ter ic chilled. "Unlike many fu flavored darker beers th are best served at cool b not cold cellar temperatur summer brews can be serv cold and still keep the taste," says Timothy Har er, author of *The Good Be Guide to New York*, sche uled to be published in Se tember. Harper is a partn in the Brooklyn Brewer which offers a limited-editi entry called Brooklyn Ea India Pale A one of sever summer beers that a gro of BUSINESS WEEK's proude biermeisters hoisted durir an informal taste test. A though the Pale Ale was bit too bitter and overpowe ing for my taste, anoth magazine guzzler thought t beer was "smooth and e tremely pleasant."

POTABLES

LIGHT-HEADED. Many of t BUSINESS WEEK teste shared my opinion th Pete's Wicked Summ Brew's subtle lemon flav would mesh nicely wit grilled food at a backyard beach barbeque. As wit other light beers, Pete Brew is not overpowerir and doesn't offer much of head. Similarly, New Am terdam Blonde Lager wou complement a light summe meal. It has a smooth, r freshing character, and o sippers detected a hint malt and vanilla.

I was also quite satisfie by the unusual and somewha tangy taste of Saranac Mou tain Berry Ale, from F. X Matt Brewing in Utica, N. The rich ale is fe mented with hone and fruit juice though its sweetnes will probably turn o some. (One of m unenlightened co leagues sniped that was "the white Zi fandel of beer.")

Oh well, who ca account for taste Pass the bottl opener, please.

Edward Ba

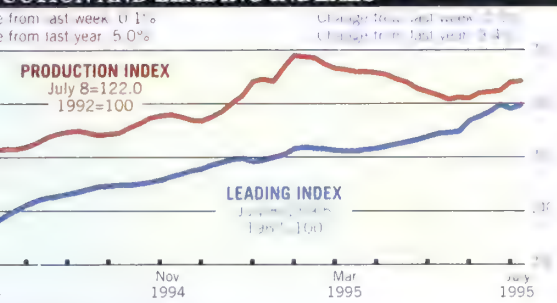
Brushing Up On Beer

AMERICA'S BEST BEERS *by Christopher Finch and W. Scott Griffiths* Little, Brown, **$14.95**	Guide to more than 350 microbreweries, pubs; with tasting notes and ratings
BEER BASICS: A QUICK AND EASY GUIDE *by Peter LaFrance* John Wiley, **$12.95**	Covers how beer is made, brewing styles, and how to serve the suds
MICHAEL JACKSON'S BEER COMPANION Running Press, **$35**	Comprehensive work on every aspect of beer; color photos

DATA: BUSINESS WEEK

siness Week Index

UCTION AND LEADING INDEXES



are 4-week moving averages

uction index was virtually unchanged in the week ended July 8. alculation of the four-week moving average, the index dropped to 122, 3.2. Seasonally adjusted output levels of autos, trucks, and lumber he decline.

ing index increased in the most recent week. The unaveraged index , to 261.2, from 259.6. The surging stock market, as well as faster n real estate loans, lifted the index.

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (7/15) thous. of net tons	1,926	1,919#	2.6
AUTOS (7/15) units	34,355	12,937r#	-2.6
TRUCKS (7/15) units	13,616	16,890r#	-9.9
ELECTRIC POWER (7/15) millions of kilowatt-hrs.	74,370	63,775#	8.2
CRUDE-OIL REFINING (7/15) thous. of bbl./day	14,540	14,400#	1.0
COAL (7/8) thous. of net tons	15,563#	18,615	6.2
PAPERBOARD (7/8) thous. of tons	892.1#	926.8	4.3
PAPER (7/8) thous. of tons	825.0#	842.0r	10.0
LUMBER (7/8) millions of ft.	232.3#	411.4	-32.3
RAIL FREIGHT (7/8) billions of ton-miles	19.5#	23.4	6.6

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Forest & Paper Association, WWPA[1], SFPA[2], Association of American Railroads

ING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
PRICES (7/14) S&P 500	558.75	551.18	24.3
ATE BOND YIELD, Aaa (7/14)	7.26%	7.29%	-11.2
RIAL MATERIALS PRICES (7/14)	115.5	115.0	NA*
SS FAILURES (7/7)	351	336	17.4
STATE LOANS (7/5) billions	NA	NA	NA
SUPPLY, M2 (7/3) billions	$3,663.9	$3,663.9r	2.3
CLAIMS, UNEMPLOYMENT (7/1) thous.	370	369	7.6

Center for International Business Cycle Research (CIBCR), Standard & oody's, *Journal of Commerce* (index: 1990=100), Dun & Bradstreet (failures ompanies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on failures and real estate loans. *Historical data available from CIBCR.

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (7/19) $/troy oz.	390.450	386.700	1.3
STEEL SCRAP (7/18) #1 heavy, $/ton	140.50	140.50	19.6
COPPER (7/15) ¢/lb.	145.9	141.5	27.3
ALUMINUM (7/15) ¢/lb.	87.0	85.0	17.6
COTTON (7/15) strict low middling 1-1/16 in., ¢/lb.	96.75	100.60	38.7
OIL (7/18) $/bbl.	17.34	17.25	-9.7

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX

REST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
L FUNDS (7/18)	5.67%	5.75%	4.30%
RCIAL PAPER (7/19) 3-month	5.76	5.73	4.69
CATES OF DEPOSIT (7/19) 3-month	5.73	5.73	4.65
IORTGAGE (7/14) 30-year	7.64	7.86	8.87
ABLE MORTGAGE (7/14) one-year	5.78	5.86	5.61
7/19)	8.75	8.75	7.25

Federal Reserve, HSH Associates, Reuters Holdings PLC

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (7/19)	87.74	87.53	98.88
GERMAN MARK (7/19)	1.39	1.40	1.59
BRITISH POUND (7/19)	1.60	1.59	1.52
FRENCH FRANC (7/19)	4.83	4.88	5.45
ITALIAN LIRA (7/19)	1621.0	1619.0	1584.5
CANADIAN DOLLAR (7/19)	1.36	1.35	1.38
MEXICAN PESO (7/19)[3]	6.050	6.110	3.400

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars

a in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense . 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

HE WEEK AHEAD

L BUDGET

July 24 ▶ The Treasury Dept. will report a surplus of $15.5 billion according to the median forecast mists surveyed by MMS International- f the McGraw-Hill Companies. likely rose last month since quar- payments are due in the last f each quarter. Washington was in k by $14.8 billion in June, 1994.

MENT COSTS

July 25, 8:30 a.m. ▶ Wages and in the private sector probably d by 0.8% in the second quarter, an the 0.6% gain in the first quar- 's suggested by the recent pickup in wage growth. Still, for the year ended in the second quarter, compensation likely grew by 2.9%, the same modest advance as in the first.

CONSUMER CONFIDENCE

Tuesday, July 25, 10 a.m. ▶ The Conference Board's index of consumer confidence likely bounced back to a reading of 94 in July after the index dropped to 92.8 in June from 102 in May. A stronger job market is boosting consumers' spirits.

DURABLE GOODS ORDERS

Thursday, July 27, 8:30 a.m. ▶ New orders for durable goods probably rose 0.5% in June, says the MMS survey. Orders jumped an unexpected 2.7% in May, after falling for three months in a row.

GROSS DOMESTIC PRODUCT

Friday, July 28, 8:30 a.m. ▶ The MMS median forecast expects that the economy grew at an annual rate of 0.5% in the second quarter. But the forecasts range from a 1% drop to a 2.7% rise, which would equal the solid increase in first-quarter GDP. Slower inventory growth and a wider foreign trade deficit probably held down GDP growth. Demand, though slower than in 1994, should show no signs of slipping to a recessionary crawl. Inflation, as measured by the GDP deflator, likely rose at a 2.8% annual rate from 3.1% in the first quarter.

Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company, plus a stock symbol where appropriate. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A

ABC (CCB) 90
[illegible] (ATI) 71
Alcoa (AA) 36
American Airlines (AMR) 42, 80
American Express (AXP) 6, 66
America Online (AMER) 83
Amoco (AN) 53
AmSouth Bancorp (ASO) 92
Amtec International 53
Apple (AAPL) 12, 46
Applied Network Technologies 79
Arbor 80
Arthur Andersen 42
AST Research (ASTA) 56
Astrum International 53
AT&T (T) 46, 56, 71, 80
AutoPacific 39

B

Ballantine Publishing Group 44
Banana Republic (GPS) 83
Banc One (ONE) 66
Bankers Trust (BT) 67
Bank of America (BAC) 80
Bank of Boston 92
Bank of New York (BK) 66
Barnes & Noble (BKS) 44
Bass (BASS) 80
BayBanks 92
Bolt Beranek & Newman (BBN) 70
Bosch 56
Boston Beer 94
Boston Co. Asset Management 46
Brooklyn Brewery 94
Burlington Coat (BCF) 80
Burnham Securities 71

C

Cable & Wireless (CWP) 71
CBS (CBS) 34
Celis Brewery 94
Cemex 69
Champion Intl. (CHA) 36
Charles Schwab (SCH) 80
Chase (CMB) 67, 92
Chemical Bank (CHL) 34, 92, 67
Chrysler (C) 36, 39, 50
Cinerama 46
Citibank (CCI) 56, 66, 67, 80
Citroen 50
Comcast (CMCSK) 71
Commerce Bancshares (CBSH) 92
Compaq Computer (CPQ) 79
CompuServe 18
Corning (GLW) 83
Cox Communications (COX) 71, 90
Cray Research (CYR) 80
Cuisinart 83

D

[illegible]
Daimler Benz 50
Dayton Hudson (DH) 38
Dean Witter (DWD) 30, 74
Delta Air Lines (DAL) 42
Digital Equipment (DEC) 56, 80
Digital Microwave (DMIC) 70
Disciples 44
Dow Chemical (DOW) 87
Dreamworks 98

E

Eastman Kodak (EK) 71
Empi (EMPI) 70
Ernst & Young 66
Exxon (XON) 53

F

Fidelity 36, 46
First American (FATN) 92
First Chicago (FNB) 38, 66, 67, 92
First Fidelity (FFB) 66, 92
First Interstate (I) 79
First Tennessee National 92
First Union (FTU) 66, 92
Ford (F) 36, 39, 50, 71
Fore Systems 79
Fox Broadcasting 34
Fujitsu 56
Furman Selz 39
F.X. Matt Brewing 94

G

Gemstar 90
General Electric (GE) 34, 71, 80
Georgia-Pacific (GP) 36
Gibson Dunn & Crutcher 66
Global Village Communications (GVIL) 18
GM (GM) 6, 39, 50, 80
Goldman Sachs 66, 74
Great Western Financial (GWF) 92
GreenPoint Financial 67
Grupo Financiero Serfin 69

H

Hancock Regional Bank Fund 92
Harcourt Brace 44
HarperCollins 14, 44
Harris Semiconductor (HRS) 56
Haver Analytics 74
Haworth 8
Hewlett-Packard (HWP) 56, 79, 80
Hitachi 90
Home Shopping Network (HSN) 83
Honda 39
Hyundai 56

I

IBM (IBM) 6, 36, 46, 56, 79, 80
Industrias Peñoles 69
Ingram Book 44
Integrated Services Digital Network (ISDN) 18
Intel (INTC) 36, 56
International Paper (IP) 36
International Survey 8
Intuit (INTU) 6
Invesco Strategic Financial Services Fund 92

J

Jacob Leinenkugel 94
J.D. Power & Associates 39
John Alden Life Insurance 80
John Hancock Regional Bank Fund 92
J.P. Morgan (JPM) 34, 67
Justin Industries (JSTN) 71
JVC 90

K

KBLCOM 90
Keefe Bruyette & Woods 92
KHD 50
Kia Motors 56
Kimberly-Clark (KMB) 46
Kiwi International 42
Kopp Investment Advisors (KIA) 70
Korea Electric Power 56
Korea Telecom 56
Korn/Ferry 8

L

Ladenburg, Thalmann & Co. 74
Lands' End (LE) 83
Laurence H. Meyer 38
Lehman Brothers (LEH) 38
LG Electronics 56
Lin (LIN) 71
Little Brown 44
L.L. Bean 38
London Fog 83

M

Marke Communications 12
Marriott (MAR) 41, 53
McCaw (MCAWA) 14, 71
McDermott (MDR) 53
McGraw-Hill (MHP) 14, 18
MCI (MCIC) 46, 80
McKesson (MCK) 80
Mellon Bank (MEL) 46
Mercedes-Benz 56
Merchant du Vin 94
Meredith (MDP) 46
Merrill Lynch (MER) 30, 34, 66
Mervyn's (DH) 80
Microsoft (MSFT) 6, 12, 36, 46, 56, 80, 83
Midlantic (MIDL) 92
Miller Brewing 94
Mitsubishi 34, 90
Moorings 44
Morgan Stanley (MS) 36
Motorola (MOT) 18, 56, 71
Myers Industries (MYE) 71

N

National Football League 34
National Software Testing Laboratories (NSTL) 18
NatWest Securities 69
NBC 34
NBD Bancorp(NBD) 66, 67, 92
Network Equipment Technologies (NWK) 70
New Amsterdam Partners 36, 94
News Corp. 90
Nissan Motor 56
Norand (NRND) 70
Nordstrom (NOBE) 15

O

Olympia & York 46
Oracle (ORCL) 56, 80

P

Pacific Telesis (PAC)71
Panasonic 90
Paramount Communications (PCI) 83
PDQ Personnel Services 41
Peak Technologies Group (PEAK) 71
Penn Virginia Oil & Gas 12
Pennzoil (PZL) 53
PepsiCo (PEP) 6, 34
Perot Systems 6
Personal Technology 78
Pete's Brewing 94
Philip Morris (MO) 40
Picturetel (PCTL) 70
PNC Bank (PNC) 92
Practial Peripherals 18
Price Waterhouse 80
PrimeCo 71
Prism Solutions 80
Procter & Gamble (PG) 46
Prodea 80
Prudential Insurance 67
Pyramid Technology 80

Q

Quantum Fund 6[illegible]
QVC (QVCN) 83

R

Random House 44
RCA Laboratories 56
Readers' Digest (RDA) 46
Red Brick Systems 80
Reed & Reed 41
Revlon 80
Robinson-Humphrey 71
Rockwell Intl (ROK) 18
Ryan Hankin Kent 90

S

Salomon (SB) 30, 34
Samsung 56, 90
Sanford C. Bernstein 66
Sapporo 94
Scott Paper (SPP) 46
Scudder Stevens & Clark [illegible]
Securities Data 92
Sentry Market Research 7[illegible]
Sequent Computer System (SQNT) 80
Siemens (SIEA) 34, 80
Siguler Guff 53
Silicon Graphics (SGI) 87
Simon & Schuster 44
Smith Barney (TRV) 6, 71
SmithKline Beecham 8
Snelling & Snelling 8
Soundview Financial 36
Southwest Airlines (LUV) 4[illegible]
Sprint (FON) 46, 71
Ssangyong Motor 56
Stanford Telecommunicatio[illegible] (STII) 70
StarSight (SGHT) 90
Steinhardt Partners 68
Symbol Technologies (SBL[illegible] 71

T

Target Stores 38
Technicolor 46
Technometrics 70
Telco Systems (TELC) 70
Tele-Communications (TCOMA) 83, 90
Tenet Healthcare (THC) 6
Texas Instruments (TXN) 1[illegible] 5[illegible], 79
Thomas Nelson Publishers [illegible]
Tiger Fund 68
Times Mirror (TMC) 46
Toyota 39
Travelopolis 18
Trump 6
TRW (TRW) 56
Tyndale House Publishers [illegible]

U

UBS Securities 66, 92
Unisys (UIS) 80
United Airlines (UAL) 42
United Parcel Service 6
United Video Satellite Grou[illegible] 90
U.S. Bancorp (USBC) 92
U.S. Robotics 18
U S West (USW) 71
USX (X) 36

V

ValuJet Airlines 42
Viacom (VIA.B) 90
Virtual I-O 12
Vodafone Group (VOD) 71
Volkswagen 50

W

Waldenbooks 44
Wal-Mart (WMT) 6, 38
Warner Bros. (TWX) 34
Weiss Peck & Greer 68
Wells Fargo (WFC) 66
West One Bancorp (WEST) [illegible]
Westinghouse (WX) 34
Word Publishing 44

X

Xerox (XRX) 71

Z

Zacks & Co. 36
Zebra Technologies (ZBRA) 71
Zenith (ZE) 56, 90, 98
Zondervan Publishing 44
Zoom Telephonics 18

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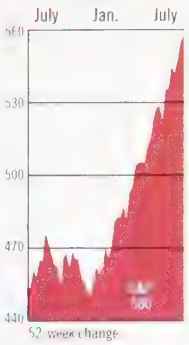
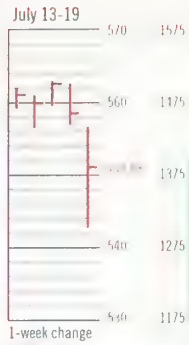
estment Figures of the Week

ARY

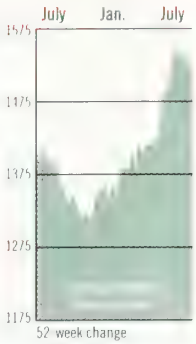
e loose on July 19. The market was roiled by ut technology stocks. the bond market was nments by Federal Re- man Alan Greenspan in- Fed won't cut short- ny time soon. News of ng earnings at Intel set plummeting, at one g the Dow Jones indus- e falling 134 points. ended the day down 57 ng at 4629. The dollar e-day low against the

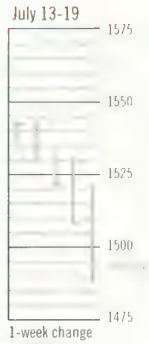
STOCKS



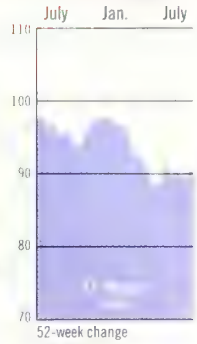


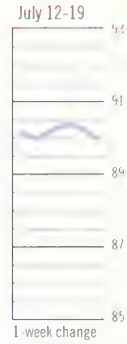
BONDS





THE DOLLAR





ET ANALYSIS

KS	Latest	% change Week	% change 52-week
INDUSTRIALS	4628.9	-2.1	24.2
MPANIES (S&P MidCap Index)	198.9	-3.1	17.8
PANIES (Russell 2000)	287.1	-2.3	17.8
IES (Russell 3000)	313.8	-2.0	21.0

STOCKS	Latest	% change (local currency) Week	% change (local currency) 52-week
NANCIAL TIMES 100)	3405.3	-1.3	10.7
E) INDEX)	16,422.4	-1.1	-21.0
SE COMPOSITE)	4607.5	-2.2	10.2

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	5.55%	5.53%	4.39%
30-YEAR TREASURY BOND YIELD	6.86%	6.55%	7.54%
S&P 500 DIVIDEND YIELD	2.42%	2.39%	2.79%
S&P 500 PRICE/EARNINGS RATIO	16.6	17.2	19.5

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day moving average	492.5	490.1	Positive
Stocks above 200-day moving average	76.0%	77.0%	Negative
Speculative sentiment: Put/call ratio	0.55	0.58r	Negative
Insider sentiment: Vickers sell/buy ratio	1.70	1.51	Positive

BLOOMBERG FINANCIAL MARKETS

TRY GROUPS

TH LEADERS	% change 1-month	% change 12-month	Strongest stock in group	% change 1-month	% change 12-month	Price
IM	24.4	34.6	REYNOLDS METALS	30.7	16.5	61¾
NDUCTORS	20.8	98.1	INTEL	26.2	149.9	73¼
	20.4	11.4	INCO	36.3	25.8	34¾
ONTAINERS	13.3	11.8	STONE CONTAINER	22.1	22.1	21⅜
RING AND CONSTRUCTION	12.7	-3.8	MORRISON KNUDSEN	46.7	-60.2	8¼

TH LAGGARDS	% change 1-month	% change 12-month	Weakest stock in group	% change 1-month	% change 12-month	Price
GAS DRILLING	-7.1	-8.3	HELMERICH & PAYNE	-7.7	4.1	28⅝
RAPHY/IMAGING	-4.7	19.4	POLAROID	-5.4	17.0	39½
OLD PRODUCTS	-3.9	28.0	COLGATE-PALMOLIVE	-12.0	27.2	67¼
L EQUIPMENT AND SERVICES	-3.9	1.4	McDERMOTT INTERNATIONAL	-9.7	-8.3	23⅜
LORATION AND PRODUCTION	-3.3	-5.0	SANTA FE ENERGY RESOURCES	-8.3	2.7	9¾

AL FUNDS

total return	%
EQUIFUND-MEXICO	24.0
APITAL APPRECIATION	21.0
SELECT ELECTRONICS	20.4

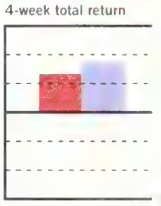
tal return	%
N COMMUNICATIONS & INFORM. A	114.4
SELECT ELECTRONICS	99.0
E TECHNOLOGY A	98.0

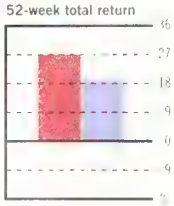
LAGGARDS

Four-week total return	%
FIDELITY SELECT ENERGY SERVICE	-4.6
FIDELITY SELECT NATURAL GAS	-4.0
PIONEER INDIA B	-3.7

52-week total return	%
AMERICAN HERITAGE	-32.4
STEADMAN OCEANOGRAPHIC TECHNOLOGY	-26.0
JAPAN	-23.3

S&P 500 Average fund





IVE PORTFOLIOS

unts represent the ue of $10,000 ne year ago rtfolio

es indicate otal returns

U.S. stocks	Treasury bonds	Foreign stocks	Money market fund	Gold
$12,622	$12,054	$11,131	$10,530	$10,049
+0.66%	+0.13%	-0.41%	+0.14%	+0.67%

is page are as of market close Wednesday, July 19, 1995, unless otherwise indicat- roups include S&P 500 companies only; performance and share prices are as of market close July 18. Mutual fund returns are as of July 14. Relative portfolios are valued as of July 18. A more detailed explanation of this page is available on request. r=revised NA=Not available

KOREA'S MIRACLE: THE NEXT STAGE

Which nation is a world leader in memory-chip production, has the largest number of PhDs per capita, is a giant auto and electronics manufacturer, exports $100 billion worth of goods annually, and runs an $11 billion trade deficit with Japan? The U. S.? Think again: Korea.

Riding a high-tech boom, Korea is about to become the first country to hit advanced industrial power status since the emergence of Japan. At nearly half a trillion dollars, its GDP is already the 11th-largest in the world. Growing at 7% to 10% annually, that GDP could double within the next decade, bringing per capita income, now at $10,000, to $20,000 (page 56).

Already, Korean companies are moving beyond their own borders. In the U. S. alone, Korean companies just bought TV maker Zenith Electronics, invested in Steven Spielberg's hot Dreamworks SKG multimedia company, and broke ground on a $1 billion chip factory in Eugene, Ore.

Korea's growing strength is upsetting half a dozen geopolitical applecarts. Korea is openly challenging Japanese and Chinese hegemony in North Asia. Mercantilist to the teeth, Korea's successful state capitalism is competing in Asia with the Anglo-Saxon free-market model of growth.

For America, Korea's new economic power means that it's time for a new contract. Condoning an extreme concentration of economic and political power to quicken growth and ward off communism, the U. S. nurtured a military-industrial-bureaucracy complex that created an export-driven, protec Korean economy. Now, there is a need for significant cha Nontariff barriers and blatant government regulations k foreign companies out of Korean markets from insurance telecommunications. Only 4,000 foreign autos were sold all of Korea last year, while Korea exported 400,000. Fore investment houses and banks are strictly controlled.

Unlike the situation with Japan, the U.S. is runnin rare $3 billion trade surplus with Korea for 1995, thanks strong exports of capital goods. But Korea still can't expec be allowed to buy American companies and have open acc to the U. S. market without reciprocating. Only through l protectionism will Korea be able to gain entry into the Wo Trade Organization and the Organization for Economic Co eration & Development.

Most important, Korea itself would benefit from econo liberalization. Small companies are starving as giant *chae* monopolize bank borrowing and government contracts. Lo construction remains shabby, as witnessed by recent brid subway, and department-store disasters, in part because f eigners with superior building techniques are banned.

President Kim Young Sam, who will soon visit the U. S., v elected on a platform of economic reform. His reign will j those of the great Silla, Koryo, and Yi dynasties if he succe in opening Korea to the larger world it is racing to embra

THE SHAKEUP IN ECONOMIC STATISTICS

In the arcane world of government statistics, major changes are about to take place that could deeply affect Corporate America. Revisions in the way the Bureau of Economic Analysis computes real gross domestic product may change not only Federal Reserve monetary policy, but company investment decisions as well (page 74).

On the face of it, the new statistics, which are due out in December, are distressing. Both economic growth and productivity are portrayed as much lower than previously estimated. The numbers will show that the U. S. economy did not grow at a 3.1% annual rate during the past four years but only at 2.6%, making it one of the weakest expansions on record.

It gets worse. Productivity gains disappear. Instead of rising at a 1.9% yearly rate in the 1990s, nearly double that of the '70s and '80s, the revised statistics will show productivity going up only 1% annually, no more than in previous decades.

Finally, the government will deemphasize the dollar figure for GDP, replacing it with an index. So the first-quarter GDP of $5,480 billion in 1987 dollars, will appear as 118.3, meaning that it is 18.3% above its index value of 100 in 1987.

If the GDP and productivity numbers are right, the policy implications are tremendous. The U. S. is a lot less competitive internationally, inflation is much more of a threat domestic ly, wages have little chance of rising, etc.

But don't panic just yet. GDP and productivity growth a being revised downward precisely because BEA is changi some component numbers it has learned to measure more p cisely. The government is still awaiting better measuremen for other components of the Information Revolution th have raised efficiencies, lowered prices, generated inno tions, and improved quality. Business purchases of softwa ($51 billion in 1994), for example, are still counted with pap clips and other office supplies instead of being included und investment. While BEA does adjust for price and quali changes in computers in its statistics, it doesn't for teleco gear or for semiconductors. Its inflation indexes are missi the huge price drops in high-tech goods for consumers a businesses, therefore understating GDP.

So stay tuned for more revisions. Once the stat folks figu out how to measure the cool stuff of the Information Revoluti the GDP recount will go up, and with it, productivity. May some private econometric outfits can come up with this befo BEA. In the meantime, we hope BEA continues to report GDP dollars, not in some abstract index, if only to let us see how t U. S. stacks up against Japan and the rest of the world.

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DID DIRTY TRICKS CREATE A HOT BUSINESS BOOK?

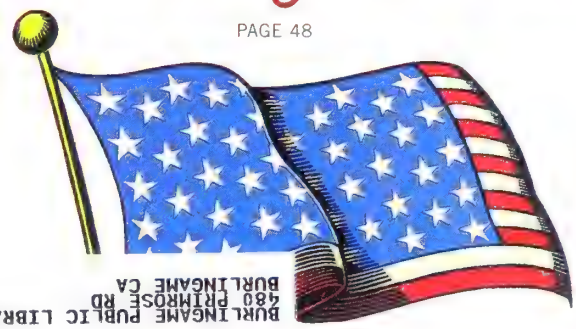
BusinessWeek

T 7, 1995 A PUBLICATION OF THE McGRAW-HILL COMPANIES

POWER TO THE STATES

Are they ready?

PAGE 48



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*I.D.C. Research, May 1995. **Projected earnings based on a quote from Acer Chairman Stan Shih.

COVER STOR
States are abo
to take charge
the nation's
social program
Will they be up
the costly task
page 48

BusinessWeek

AUGUST 7, 1995

Cover Story

48 POWER TO THE STATES
[illegible] has set off a huge transfer of money—[illegible]
They'll soon have more control over welfare, Medicaid, and environmental policy than they dreamed possible. But there's a catch: Federal funding cuts. The new freedom could bust state [illegible]

52 TOMMY THOMPSON'S TOUGH LOVE
[illegible]

54 FLORIDA'S MEDICAID MISCUES
[illegible]

56 THE GOLDEN STATE'S FADING GREENS
Even California's environmentalists are [illegible]

News Analysis & Commentary

22 THE MAKING OF A BEST-SELLER
Did an author, with the help of Addison-Wesley and others, manipulate sales to [illegible]

25 HOW HIGH CAN THE AIRLINES FLY?
[illegible] carriers, but fuel tax and labor [illegible]

27 HARD-TO-GET IN BOSTON
Bank of Boston keeps turning up its nose at merger partners. Will it be left all alone at the end of the dance?

28 P&G HEADS FOR THE MEDICINE CHEST
[illegible] detergent giant's drug business by 2000 [illegible]

29 THE DRUG OF THE CENTURY—MAYBE
[illegible] to test its fat-fighting phenomenon. [illegible]

30 ALL HAIL PEROT
Presidential hopefuls of all political stripes will scurry to a Dallas conclave [illegible]

31 AMERICAN MAIZE'S HARVEST
[illegible]

32 CAN PRODIGY KEEP PACE?
The online service has steadily lost market share—and many doubt if a newer version will help

32 TINSELTOWN TERROR ON THE NET
[illegible] log on, a Hollywood techno-thriller [illegible]

34 IN BUSINESS THIS WEEK
A union of unions, Gibson Greetings, Gannett, Viacom and Giant, football, L.A., SEC reform, revenue for Yahoo [illegible]

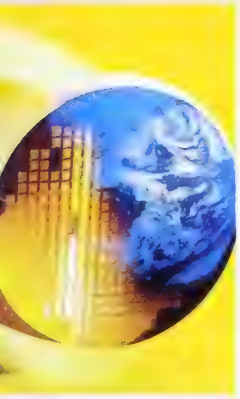
International Business

38 JAPAN
[illegible] future, and with good reason: Job opportunities just aren't knocking [illegible]

40 KOREA
Lucky Goldstar jumped at the chance [illegible] buy electronics giant Zenith. Will the purchase help it reach its peak [illegible]

44 GERMANY
[illegible] questions are arising about how [illegible]

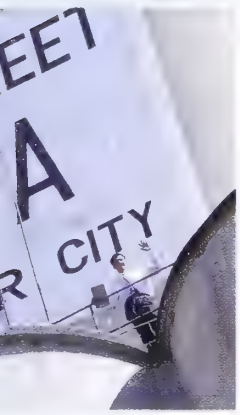
45 INTERNATIONAL OUTLOOK
Hong Kong: A cease-fire between Britain and China as disputes start being resolved



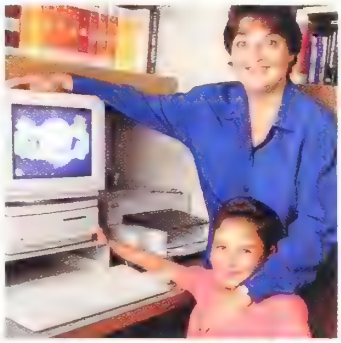
HIP WORLD
dung chip
ons have rivals
ts dust page 64

FUTURE SHOKKU
Japan's Generation X faces a distinctly hostile job market page 38

DIRTY TRICKS?
Sales of a best-selling biz book may have been manipulated page 22



CITYBOUND
Jones & Co. made its rep selling stocks in the sticks. Can it make it in the big cities? page 58



COMPUTER TUTOR
When it comes to kiddieware, Edmark gets straight A's page 70

INSIDE SCOOP
What it may mean when top brass buys or sells the stock page 74

nomic Analysis

OMIC VIEWPOINT
er: With insurers in charge, every l result of universal coverage is -little choice, red tape, cut corners

OMIC TRENDS
y U.S. piggy banks, this is only a own, retailers can sell—if it's on he running-down of the bulls

ESS OUTLOOK
mer spending may rise, but not h to overheat the economy

ernment

INGTON OUTLOOK
ros' plans to cut back on spending ave HUD from the chopping block

rmation Processing

NOLOGY & YOU
ows 95 poses the question: To de or not to upgrade?

LOBAL CHIP PAYOFF
orldwide strategy is giving the any a huge share of the biggest ech bonanza ever

Finance

58 KNOCK-KNOCK, SELL STOCK
As its small-town strategy loses steam, Edward D. Jones & Co. is looking to expand into larger communities

59 HSBC VS. THE WORLD
Hongkong & Shanghai Bank is fighting off foreign rivals invading its home turf

61 HOPE FOR REAL ESTATE'S LIVING DEAD
A maverick financier may offer a key to locked-in investment partners

62 INSIDE WALL STREET
Marriott may be a sleeping beauty
The next bank to watch?
Salant looks better in jeans

83 INVESTMENT FIGURES OF THE WEEK

Science & Technology

67 DEVELOPMENTS TO WATCH
Snap-together satellites, home remedies for pollution, super-incinerators

The Corporation

68 A NEW DOCTOR FOR BEVERLY?
The ailing nursing-home chain looks ripe for a takeover

People

70 THE PIED PIPER OF KIDS' SOFTWARE
Sally Narodick's passion for education, business, and children is fueling Edmark's rapid rise

Sports Business

72 STICKY WICKETS–BUT WHAT A FUTURE
As Western sports marketers push to Asia, opportunities seem endless

Personal Business

74 INVESTING: Cues from insiders
SMART MONEY: Offshore munis

Features

4 UP FRONT
8 READERS REPORT
9 CORRECTIONS & CLARIFICATIONS
12 BOOKS
Lind: *The Next American Nation*
81 BUSINESS WEEK INDEX
82 INDEX TO COMPANIES
84 EDITORIALS
The states: Time for a reality check
How not to deregulate telecom

Up Front

EDITED BY LARRY LIGHT, WITH OLUWABUNMI SHABI

TALK SHOW "Evil in porcine form."

—What Hormel Foods, maker of Spam, calls the character Spa'am, an obnoxious pig in an upcoming Muppets movie. Hormel is suing Jim Henson Productions to force a name change.

KANTOR AND HASHIMOTO: *Say what?*

THE GLOBAL ECONOMY

THE U.S.-JAPAN PACT: A HARD NUMBER

REMEMBER HOW, AFTER THE June 28 auto trade accord, Washington estimated the American cars and U.S.-made car parts the Japanese would buy? And remember how Japanese bureaucrats quickly disassociated themselves from the numbers, saying the calculations were purely made in America?

Well, U.S. sources close to the Geneva talks say that in the final hours of the talks headed by the U.S.'s Mickey Kantor and Japan's Ryutaro Hashimoto, Japanese officials quietly supplied one key figure: Japan's car companies planned to buy $6 billion worth of foreign parts in 1998 for use in their domestic plants. This was the sum of forecasts the Japanese auto makers had earlier given to the Ministry of International Trade & Industry. Japanese officials aren't able to confirm or deny that.

Sure, the $6 billion in parts imports does not amount to an enforceable commitment. But if the Japanese auto makers follow through, it could be far more beneficial than their 1992 pledge to double their foreign-parts purchases to $19 billion in three years. That agreement failed to spell out how much would actually be imported to Japan. Most of the parts ended up in Japanese cars manufactured in their U.S.-based plants. *Amy Borrus*

HONCHOS

CALL IT AN IACOCCA-MERCIAL

LEE IACOCCA IS BACK DOING what he does best: promoting himself. Despite his recent losing streak, the former Chrysler chairman is making a video series giving the secrets of his success. Forget his messy public divorce. Forget his role in Kirk Kerkorian's belly-flopped bid for Chrysler. This September, the 70-year-old Iacocca, who gained fame pitching Chryslers, will take to the air in an infomercial hawking his video series, *Power and Persuasion: The Wisdom of Lee Iacocca.*

Iacocca, who won't comment, has signed with Guthy-Renker, an infomercial company that put itself on the map by pitching Victoria Principal skin-care products. Greg Renker, the company's president, says he won Iacocca's service in a bidding war. "Lee's got a lot of admirers who are going to want to know the secrets of his success," says Renker, who won't discuss Lee's troubles.

EX-CHAIRMAN LEE: *Tips on tape*

Miffed that he teamed up with Kerkorian, Chrysler directors won't let him cash in $31 million worth of stock options. And they are scrapping plans to name a new headquarters building in his honor. Well, Iacocca has a bunch of other business interests to compensate. For one, he sits on the board of New World Communications Group, which owns 37.5% of Guthy-Renker. *Ronald Grover*

NEWT WORLD ORDER

THE SPEAKER AND THE SOUTHERN BELL

NEWT GINGRICH'S DAUGHTER Jackie is in the middle of an increasingly nasty war over telecom reform, which pits the regional Bell carriers against long-distance companies such as AT&T. Jackie Zyla, 28, started work in BellSouth's cellular division just after the GOP sweep last November. Long-distance lobbyists are buzzing all over that this is one reason Gingrich is cozy with BellSouth, which serves his district. "The fix is in," carps one.

GINGRICH: *Doting dad?*

Recently, Gingrich upset the long-distance carriers by changing the House telecom bill—set to go to the floor before the Aug. 4 recess—to make it easier for the Bells to get into the long-distance business but harder for the long-distance companies to get into the Bells' business.

A BellSouth spokesman says it had no idea Zyla was Gingrich's daughter until Gingrich mentioned it to BellSouth Chairman John Clendenin at an impromptu meeting a few weeks after she was hired. Gingrich spokesman Tony Blankley dismisses talk that Newt's decision was affected by his daughter's job. *Mark Lewyn*

WHISTLE-BLOWERS

ORANGE COUNTY'S WHITE KNIGHT?

LISSACK: *Lawsuits pending*

A WALL STREET WHISTLE-blower is going after the thankless job of CEO of Orange County, which has been creamed by the Street. Michael Lissack, 36, a former Smith Barney managing director with several pending lawsuits against the firm, has declared his candidacy for the soon-to-be vacated spot. Smith Barney fired him five months ago, saying he harassed others at the firm and injured its reputation.

Lissack has been talking to prosecutors about allegedly questionable practices at its municipal-bond desk and those of other brokerages. The firm calls his claims baseless and says it is cooperating with regulators. Lissack admits to a history of depression and to playing pranks on co-workers, but says Smith Barney is trying to discredit him to avoid responsibility for its purported misdeeds.

Lissack hopes to show Orange County supervisors he's the best suited for the job because he wants to repudiate much of Orange County's debt. It has "been sold a bill of goods by Wall Street," he says. So far, the response has been lukewarm from the supervisors, who will interview candidates soon. They recently forced out the independent-minded William Popejoy. *Nanette Byrnes*

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KNOWLEDGE IS POWERFUL MEDICINE

Up Front

NUMBERS FOR DUMMIES

WHY JOHNNY CEO CAN'T ADD

MANY BOSSES ARE FINANCIAL illiterates. That's what a consultant found after he gave a 10-question quiz to a sampling of corporate managers. More than half got four or fewer correct. Only 3.5% scored 90% or above. One of the most-missed was a multiple choice on the definition of net worth. Answer: total assets minus total liabilities.

The reason for the low scores is that most managers—even some quite high up—lack MBAs or formal financial training, says John Schuster, president of Kansas City's Capital Connections, who gave the test. Unhappy result: a lot of mistakes that an understanding of finance would prevent. Some companies, such as Phoenix-based telecom outfit Excell Agent Services, are trying to remedy the problem. All 400 Excell employees have gone through a financial boot camp that includes running a lemonade stand for a day. Can you ace the test sampling above? *Cindy Webb*

Test Your Financial I.Q.

1 A BANKRUPT COMPANY CAN BE PROFITABLE — TRUE/FALSE

2 PROFIT IS THE SAME AS CASH — TRUE/FALSE

3 A COMPANY CAN OPERATE WITHOUT CASH — TRUE/FALSE

4 AN INCOME STATEMENT SHOWS IF A COMPANY IS PROFITABLE — TRUE/FALSE

ANSWERS: 1 T 2 F 3 F 4 F

AFTERLIVES

A HEALTHY COMEBACK FOR ROD CANION?

AT COMPAQ COMPUTER, ROD Canion was knocked for losing focus on market shifts—pushing high-cost PCs when consumers were moving to cheaper models. Forced out by the board in 1991, Canion has come back as a consultant on, of all things, cost-cutting. His Houston-based Insource Management Group helps hospitals and HMOs streamline operations, such as purchasing and patient records, with new information systems. It will even guarantee that savings will cover consulting fees.

CANION: *A scalpel to costs*

Health-care systems redesign is a red-hot market for such consultants as Electronic Data Systems. Insource doesn't release revenues, but it has grown quickly to 100 people and has plans to go nationwide within three years. Canion fixed on health care after meeting and hiring company President Ivo Nelson, founder of EDS's Health Care Div. Big Insource clients: Texas Children's Hospital and Oklahoma Health Systems, an HMO.

Canion, now 50, doesn't talk much about Compaq, yet he does go to great lengths to keep up with the computer industry. An avid pilot, he wings to computer shows in his eight-seat Citation II jet. And Canion buys the latest laptop models. New Compaqs, too. *Gary McWilliams*

DRAWN & QUARTERED

THE LONG ARM

LAPTOP 54, WHERE ARE YOU?

PICTURE JIMMY CAGNEY yelling: "You'll have to download me, copper." This summer, Washington is giving up to $150 million to 100 police departments so they can buy state-of-the-art computers. The aim is to improve efficiency and give cops fresh, timely info. Detectives at a crime scene can call up mug shots on a flat-panel display. Then, using a portable printer, they can produce a victim's statement for signature. In San Diego, squad car computers let the officers tap into police and FBI data in minutes. Says Buffalo Police Commissioner Gil Kerlikowske: "These are great tools."

CYBERCOP: *Rap sheets on demand*

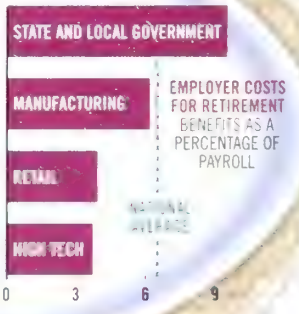
Not everyone is gung-ho. Tinkering with computer operations in the field could distract officers, says Hubert Williams, ex-head of the Newark (N.J.) force and president of the Police Foundation, a nonprofit research group. Upshot: They'll be less vigilant and more vulnerable.

Since laptop cops are a Clintonite notion, the GOP may put the money into block grants, leaving local forces to spend it as they wish. Democrats say this was tried in the '70s, when the no-strings bucks went into fancy weapons that sat unused. *Douglas Harbrecht*

THE BIG PICTURE

NEST-EGG BUILDING

Which employers contribute the most to pension funds? It's not retailers, with their high turnover, nor high-tech outfits, which have young workforces and are more likely to reward workers with stock and options.



DATA: KPMG

FOOTNOTES Baby boomers who believe Social Security won't be there for them: 71%; Generation Xers: 81%

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USA Volleyball Team

Readers Report

FANATICISM CAN BLIND ECONOMISTS, TOO

The July 17 Economic Viewpoint by Paul Craig Roberts, "How Chile may lose all the ground it has gained," is utterly dishonest in its discussion of the issues and historical background involved in the current constitutional crisis in Chile.

Roberts maintains that the present efforts in Chile to enforce a criminal verdict affirmed on appeal by that country's Supreme Court amount to an attempt by "leftists . . . to take revenge" on the former military government.

The verdict in question is against the two generals who have been tried and convicted of plotting a 1976 political assassination carried out in Washington. Roberts breezily refers to the victim as "Chilean leftist Orlando Letelier" without mentioning that Letelier was a former Foreign Minister of his country. He omits entirely the fact that an American citizen died in the same explosion.

Four successive U.S. Administrations have demanded that the Chilean government try the accused generals at home or permit their extradition to face American courts. Chile has done the former—but the workings of its judicial processes have now been blocked by the military, which is refusing to allow imposition of the sentences handed down.

The sentences against Generals Manuel Contreras and Pedro Espinoza are lawfully imposed punishments for a heinous crime that are backed by the entire constitutional apparatus of the Chilean government. It is clear that the principle at stake here is not—as Roberts claims with utter disingenuousness—left vs. right or free-market vs. statist economics but whether Chile is a country of law in which the military is subject to civilian authority.

Roberts claims that "the left always prefers the rule of ideology to the rule of law." By this definition, Roberts' essay is an exercise in leftism of the most fanatical kind.

Eric Mankin
Venice, Calif.

I was the sole survivor of the 197[illegible] (not 1978, Professor) car bombing i[illegible] Washington that killed Orlando Letelie[illegible] a distinguished ambassador and Cabi[illegible] net member of the Allende government and my first wife, Ronni Karpen Moffit[illegible] For 19 long years, scores of U.S. attor[illegible] neys, judges, and State Dept. officials o[illegible] both political parties reviewed the evi[illegible] dence in the case and traced the trail t[illegible] the Pinochet dictatorship in Santiago[illegible] They leaned on Chile to prosecute Gen[illegible] erals Contreras and Espinoza for on[illegible] simple reason: What kind of worl[illegible] would we live in if would-be democra[illegible] cies set convicted terrorists free be[illegible] cause they were afraid of a few dissi[illegible] dent army officers? Now, a few right-wing sycophants in Chile and her[illegible] want to keep Contreras and Espinoz[illegible] out of jail. If the Frei government cave[illegible] in to pressure, democracy in Chile i[illegible] not rooted very deeply.

Michael Moffit[illegible]
Princeton, N.J.

THE BILE ALSO RISES

Regarding your article "The daughte[illegible] also rises" (Finance, July 17), it amaze[illegible] me that a professional magazine stil[illegible] permits its staff to use sex-biased lan[illegible] guage in referring to professional wom[illegible] en. "Between giggles and a blush . . ." Would a man's uneasiness in responding to the same question be described in the same way? Of course not. Ms. John[illegible] son may be lacking in experience, bu[illegible] the words "laughter and a smile" woul[illegible] have gotten across the same message without bringing to mind the picture o[illegible] a nervous little girl.

Diane M. Martin[illegible]
Stamford, Conn.

FREEZING OUT CANCER

The treatment of solid malignancies with extreme cold described in "A new weapon to fight cancer: Cold" (Persona[illegible] Business, July 17) has, in my opinion, in-

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RECTIONS & CLARIFICATIONS

p on truckin'" (Up Front, July 24) incor-
y said that General Motors Corp. will
its Cadillac DeVille Concours next year.
adillac Fleetwood will be discontinued.

sion improbable at Kiwi Air" (News:
ysis & Commentary, July 31) should
said that Russell Thayer III had been
ed for seven years, not six, before tak-
he chairmanship at Kiwi Internation-
r Lines Inc. The airline did not say it
ned to trim its flight schedule or raise
t prices.

correct Web address for the Federal
get Simulator at University of Califor-
t Berkeley's Center for Community Eco-
ic Research (CCER), mentioned in "If
e so smart, you cut the deficit" (Up
t, June 19), is: http://garnet.berkeley.
3333/budget/budget.html.

correct name of France's nuclear-tech-
gy agency, which was described in "Rips
e nuclear safety net?" (Science & Tech-
gy, June 19) is Commissariat à l'Energie
ique.

applications. At the John Wayne
er Institute, we have treated more
160 people with hepatic malignan-
n the past three years, with im-
ments in most and apparent cures
ignificant number.
patients with cancer of the pan-
have also been treated, with very
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of the prostate have been treated
cryotherapy using the AccuProbe
ique.

Kenneth P. Ramming, M. D.
Associate Director
John Wayne Cancer Institute
Santa Monica, Calif.

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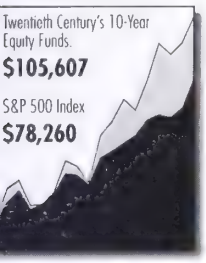
20,000 Over 10 Years: ypothetical Comparison
As of 6/30/95



what would have happened to a hetical $20,000 investment l equally on 6/30/85 among e Twentieth Century equity funds ve been in existence for at least ars: Vista, Select, Growth, Ultra iftrust, compared to the same t invested in the stocks that com- the S&P 500 during the 10-year ending 6/30/95. Past perfor- is no guarantee of future results.

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Select *Investors*	16.6% *(6/30/71)*	12.2%	7.4%	9.2%	16.5%
Growth *Investors*	18.5% *(06/30/71)*	15.5%	11.2%	10.0%	22.7%
Ultra *Investors*	17.4% *(11/02/81)*	19.0%	21.3%	20.1%	29.0%
Giftrust** *Investors*	22.3% *(11/25/83)*	24.3%	25.5%	39.5%	60.4%
S&P 500 *Index*	–	14.6%	12.1%	13.2%	26.0%

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Balanced Investors

International Funds

International Equity

International Emerging Growth

l domestic mid-cap funds during investment periods ending 6/30/95, Lipper Analytical Services, Inc., an independent mutual fund ranking service, ranked vestors on the basis of average annual total return #22 out of 32 funds for the five-year period and #4 out of 17 funds for the 10-year period. ■ Data quoted nts past performance and assumes reinvestment of all distributions. ■ Investment return and principal value will fluctuate, and redemption value may be more than original cost. ■ The S&P 500 Index is an index created by Standard & Poor's Corporation that is considered to reflect the performance of the stock market eral. It is not an investment product available for purchase. ■ The graph is intended to show investments over time. Included in the investment blend are only wentieth Century equity funds in existence for 10 years or more and the performance above represents only those funds. ■ All performance illustrations for eth Century are shown net of fees and assume reinvestment of all distributions. P.O. Box 419200 Kansas City, MO 64141-6200 BSW

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THE NEXT AMERICAN NATION
The New Nationalism and the Fourth American Revolution
By Michael Lind
Free Press • 436pp • $23

AND THE ELITE SHALL INHERIT THE EARTH

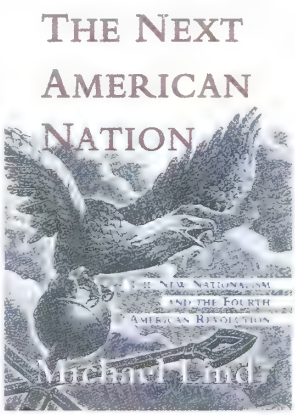
Since the time of its first settlers, there has been a widespread faith that the future belongs to America. "We shall be as a city upon a hill," said John Winthrop, the first governor of Massachusetts Bay colony, in 1630. To German philosopher Friedrich Hegel, America was "the land of the future.... It is a land of desire for all those who are weary of the historical lumber room of Europe." Despite brutal racism, political fractures, and intractable poverty, this vision of America flourished as a result of the country's economic abundance, social mobility, and vital democracy.

Until recently: Ours has become an age of diminished expectations after years of economic rivalry with Europe and Japan, the rise of competitors in the developing world, and the advent of information technologies. No matter what, traditional middle and working classes in the U. S. seem to lose.

This impasse has prompted the rise of a cottage industry of books calling for action to save ordinary Americans. Now, Michael Lind, a 33-year-old wunderkind and senior editor at *The New Republic*, joins the pack with *The Next American Nation*. A sweeping, sprawling book, it hits on almost every hot-button issue of the day, from affirmative action to income inequality. Like many books in this genre, such as Christopher Lasch's *The Revolt of the Elites and the Betrayal of Democracy*, it blames America's problems on the elite—what Lind calls the white overclass. And like other authors, Lind warns of a potential "Brazilianization of America," in which the white overclass prospers while everyone else sinks to Third World levels of deprivation.

Indeed, Lind concludes that "renewing the American nation-state will require a real, not merely metaphorical, revolution in politics and society, a revolution as sweeping—though, we may hope, not as violent—as the Civil Rights Revolution." *The Next American Nation* offers a compendium of thought-provoking ideas. Unfortunately, Lind's sketched-out solutions, such as economic protectionism, would make everyone worse off.

At first, Lind's volume is refreshing in that it takes issue with contemporary liberal and conservative orthodoxies. For example, out of a past rife with class and racial struggles there has emerged a third U. S. republic in which multiculturalism is the dominant ideology, as Lind sees it. Does this mean that the political left, which champions the view of America as a federation of cultures and races, has triumphed? On the contrary: It's another victory for the white overclass, which favors a system of racial preferences and spoils. "The constitution of 19th century Russia, it was said, was autocracy tempered by assassination," Lind writes. "The constitution of the Third American Republic is plutocracy tempered by tokenism."



For Lind, multiculturalism—which facilitates rule by the overclass by keeping the majority divided—is deeply wrong. In its place, the author calls for restoring the color-blind ideals of the melting pot. That's just one of Lind's proposals to renew America, though. Among other policies favored by the white overclass, he says, are free trade and unfettered immigration, both of which keep wages of ordinary Americans down. Lind wants to cut back drastically on immigration. He would also limit investments by American industry in low-wage regions of the world by levying a "social tariff" in the amount of the difference between U. S. and foreign wage rates. There's more: Lind would enact economic, political, and educational changes, all with the goal of weakening class barriers and increasing mobility between classes.

How good a case does Lind make? He's on solid ground describing a common American culture, and he clearly has thought hard about affirmative action. Still, he founders badly in making the case for another "revolution."

Take his notion of the white overclass, which he describes as an "extraordinarily homogeneous, powerful, and well-organized group" able "to pursue their own narrow economic agenda at the expense of most other Americans." Yes, American society has always been divided by power, money, and class. And yes, Lind makes some telling points about how America's elite is groomed at top-ranked universities and perpetuates itself through intermarriage. Yet Lind's white overclass often bears a resemblance to the apocryphal Generation-Xers who exist only in the minds of advertising executives. For example: "The overclass eats pâté and imported cheeses; the middle class eats peanut butter and Velveeta." Such cultural descriptions of the elite would seem to apply to great numbers of people whose activities hardly represent a conspiracy against the masses.

More disturbing, Lind's blueprint for narrowing income inequality would backfire. In Latin America and elsewhere, protectionism often served to shield oligarchies, while bringing on economic stagnation for everyone else. Free trade puts pressure on wages. But freer trade also invigorates growth by providing entrepreneurs bigger markets. It fosters a world open to new ideas, new technologies, and new ways of organizing life.

There are a lot of disturbing trends in the U. S. today. But Lind's revolution would do little to restore the shining city on a hill—rather, it would bring on a new set of difficulties.

BY CHRISTOPHER FARRELL

Economics Editor Farrell writes frequently on issues of trade and growth.

LIND SAYS AMERICA MUST RESTORE THE IDEAL OF THE MELTING POT–OR FACE "BRAZILIANIZATION"

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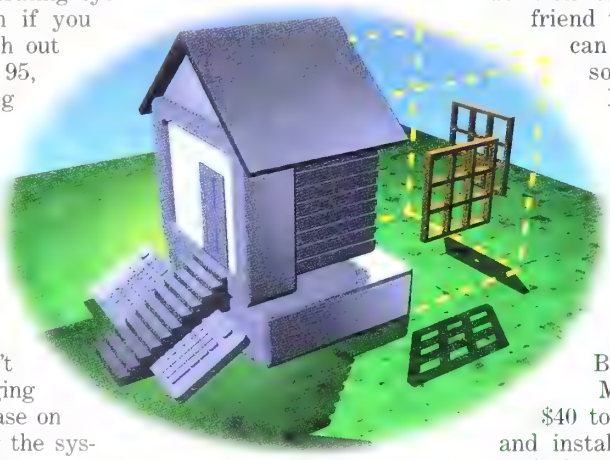
TEXAS INSTRUMENTS

BY EDWARD C. BAIG

TO UPGRADE OR NOT UPGRADE?

The coming—finally—of Windows 95 may have you thinking that now is the time to deep-six your personal computer and trade up to a state-of-the-art machine. After all, prices for Pentium-based multimedia PCs are quite decent these days. And what better excuse to justify shelling out $2,000 than the latest version of Microsoft's operating system. Heck, even if you don't plan to rush out for Windows 95, you're still itching to supplant a sluggish system with a hard drive that is stressed out to the max.

But the kids need braces, and you recently took a vacation. Couldn't you give your aging clunker a new lease on life by upgrading the system piecemeal?



ENOUGH IS ENOUGH. The answer is you can, though I wouldn't suggest putting the PC through the upgrade ringer very often. I've always contended (and Windows 95 hasn't changed my thinking) that spending money to improve one or two areas of your system, adding random-access memory, say, or a roomier hard drive, makes perfect sense. But when you feel the need to pile on the upgrades—extra RAM, a speedier microprocessor, superior video, multimedia—enough quickly becomes enough, especially when you consider the price of a new machine. Andrew Froning, managing editor at National Software Testing Laboratories, owned by BUSINESS WEEK's parent, The McGraw-Hill Companies, reckons that anytime your upgrade costs top 25% to 30% of the cost of a new machine, "you're only staving off the inevitable."

Indeed, I'd replace, rather than upgrade, anything older than an entry-level 486-based machine. Sure, you can spend only $100 to move from a 386-class chip to a 486. But your neo-486 probably still only has a cramped, 80-megabyte hard drive, compared with the 540-meg-to-1-gigabyte drives common now. Moreover, the machine probably employs an archaic video card, slow modem, and four megs of RAM.

I wouldn't recommend upgrading the processor on a computer of more recent vintage, either. Instead, turbocharge your system with more memory. NSTL says you'll likely get better performance out of a 486-33 Mhz with 16 megabytes of RAM than you will out of a 486-66 with 8 megs. You'll certainly put the memory to good use if you move over to Windows 95. Microsoft insists Win95 will run on a 386 with 4 megs of RAM, but if you want it to sing and dance, you'll need a faster processor and 8 megs—if not 12 to 16. Win95 will typically stake out at least 40 megs of hard-drive storage space, with Win95-ready programs eating up gobs more. You can find 1-gigabyte drives for less than $400. But hard drives come in several types, not always compatible, and can be complicated to install.

"MORE GLASS." Unless you're a person who doesn't break into hives at the thought of poking around the innards of your machine, you would do well to coax a techie friend to help out. You can always hire someone, as well. If you decide to tackle the job yourself, I recommend a primer such as *Upgrading & Fixing PCs for Dummies* by Andy Rathbone ($19.95, IDG Books).

Memory costs about $40 to $50 a megabyte and installation is usually hassle-free. The chips reside on SIMMs (single in-line memory modules), which fit into slots inside your computer. Consult your PC manual to find the speed and type of memory inside your machine.

Because Windows 95 lets you run several programs at the same time, you may quickly tire of a smallish, 14-inch monitor. That's when "you're going to want more glass," says Frederic S. Langa, editorial director at *Windows Magazine*. But sterling 17-inch monitors will run you $600 or more. Come to think of it, if you can raise the cash for that kind of upgrade, maybe an affordable new computer isn't out of the question after all.

BULLETIN BOARD

COMPUTERS

COMFORTS OF HOME

Trying to figure out where to put your computer? Packard Bell has launched a new fall lineup of PCs that will blend in with the rest of the furniture. One example: a wedge-shaped "corner computer." Meanwhile, in the battle to

turn the PC into an appliance, Packard Bell added remote control. Consumers can use the device to play CDs, move the cursor, or (on models with TV capability) channel-surf. Packard Bell also improved its fine Navigator front-end interface software. The new Navigator lets users launch programs by clicking on pictures in a living room (where you'll find the TV), software room (multimedia titles), and information room (manuals).

SOFTWARE

MUSE CONTROL

How many ways can you say "red"? Auburn, crimson, Scarlett O'Hara, Red Auerbach, Little Red Riding Hood.... There are 672 ways in Writer's Edge, a $40 program from IdeaFisher Systems, that can help scribes come up with clever lines. Writer's Edge is an offshoot of IdeaFisher, a creativity program. The new software includes a database of 700,000 linked words and phrases that acts as a kind of idea thesaurus. Writers can tap into the program directly from Microsoft Word, WordPerfect, and Ami Pro.

QUESTIONS? COMMENTS? techandu@mgh.com on Internet or fax 202 383-2125

BY ROBERT KUTTNER

THE LETHAL SIDE EFFECTS OF MANAGED CARE

WORST CASE With insurers in charge, every feared result of universal coverage is here–limited choice, red tape, and cut corners

Opponents of President Clinton's health plan charged that it would increase paperwork, limit freedom of choice, and interpose bureaucrats between patients and doctors. The plan was defeated—yet these dire predictions are all coming true anyway. Regulation via private managed care is at least as onerous as a universal health system with managed competition.

Since the 1960s, most Americans have grown accustomed to first-class health coverage. Most working people got insurance through their employer; the retired had Medicare, the poor Medicaid. Nearly everyone had free choice of doctors and hospitals. Some people had no insurance, but the government required that hospitals not turn anybody away, and hospitals simply shifted costs onto paying customers.

This system, however, has an inflationary bias. In an ordinary market, the person who buys the service pays the bill and is cost-conscious; the entrepreneur maximizes profits by minimizing costs. A patient, however, is not a typical consumer. When your life is at stake, money is no object. Patients generally trust their doctor to diagnose and treat and the health plan to pay the bill. Thus, doctors and hospitals maximized their incomes by maximizing treatments (as well as costs) and billing the insurer. Hospitals overbuilt. Expensive technology proliferated. Besides, people are living longer. New procedures, drugs, and medical devices keep being invented, all of which inflate costs.

REVERSED TIDE. For decades, the forces of cost containment kept losing to the forces of cost inflation. However, in the past two years, the rate of medical inflation has began to slow, mainly as a result of cost-cutting initiated by the private sector. In 1994, according to the Labor Dept., the health bill paid by employers actually declined by 1.1%. Indeed, many observers now think the premise of health reform—that efficient cost containment requires universal coverage—was wrong. The free market is solving that problem.

With managed care, fewer health plans allow doctors and hospitals to pursue treatments without insurer review. More consumers are in prepaid health-maintenance organizations that sharply limit benefits. Acquisitions, mergers, and consolidations by for-profit hospital chains are squeezing out excess capacity and putting hospitals and doctors under real competitive pressure for the first time. Insurance plans and HMOs with market power are negotiating contracts that shift the financial risk for the cost of treatment to doctors and hospitals.

All of this ratchets down costs. But is the private sector pursuing the right economies? Ironically, the free-market solution drastically limits personal freedom for doctors and patients alike. Individuals are usually stuck with whatever plan their employer provides, and doctors find reimbursement schedules and treatment protocols imposed on them.

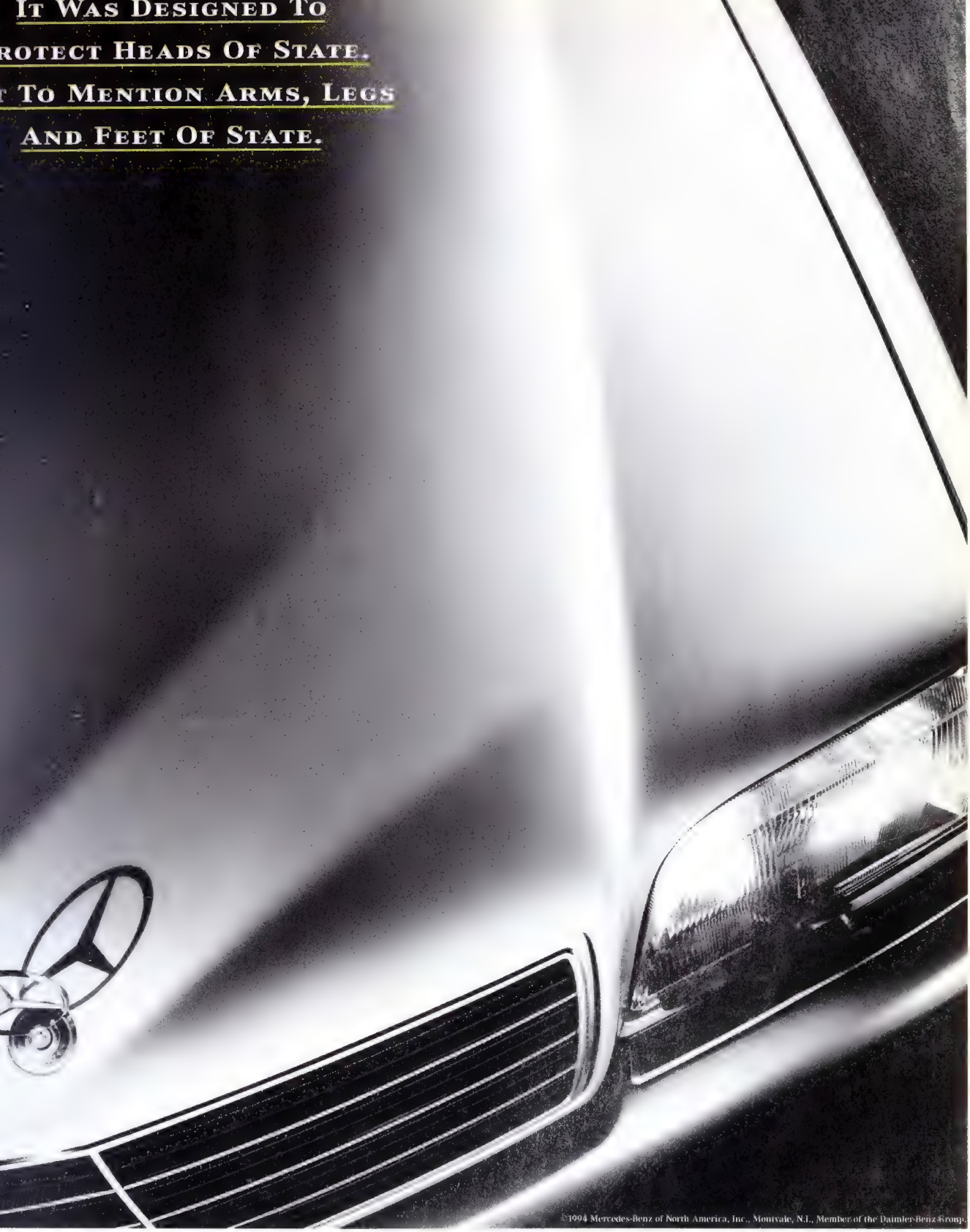
LOCKED IN. Moreover, as HMOs and insurance plans limit what they will cover, more costs are simply being shifted onto patients. This is fine for the few who can pay out of pocket but a problem, indeed, for people who must choose between health care and food or rent. Many of the other concerns that first stimulated public support for reform have only worsened. People with preexisting conditions still suffer from "lock-in" to their existing health plan and run the risk that if they lose their job, they will lose health coverage entirely.

And nearly 40 million Americans still have no insurance. Such people go without preventive care, leading to more costly treatments later on. Patients still show up for treatment in emergency rooms—the most expensive venue for routine care—when they should be treated in clinics. And as market norms drive out professional norms, hospitals at risk for financial costs resist providing unreimbursed care to the medically indigent. So cost containment under private auspices only worsens the crisis of the uninsured.

Finally, the system is still an administrative mess, with hospitals needing armies of clerks to process claims and doctors spending hours on the phone with insurance reviewers. The shift to managed care hasn't solved this administrative burden—it just shifts the locus of conflict and paperwork.

Certainly, some version of these cost-containment pressures would apply to a universal system. But there would be more of a voice for patients and doctors, more choices, and less windfall to middlemen, and coverage would be universal and portable. The defeat of universal coverage didn't resolve any of the difficult dilemmas of how to reconcile care with cost. It only rationalized them in a fashion convenient to private managed-care providers and burdensome to doctors and patients.

Robert Kuttner is co-editor of *The American Prospect* and author of *The End of Laissez-Faire*



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BY GENE KORETZ

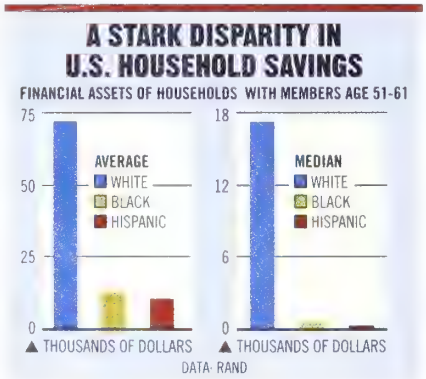
UNDERCODDLED NEST EGGS

America isn't saving for retirement

Those anticipating a revival in America's lackluster savings rate—as baby boomers head for retirement—won't be happy about a new RAND report by economist James P. Smith. His analysis of a 1993 survey of 7,600 U.S. households with a member aged 51 to 61 found both stark inequities in wealth and a surprising dearth of savings.

Most middle-aged households have modest holdings at best, reports Smith, and large segments of the over-50s have no appreciable net worth at all. "The only substantial savers," he says, "are families that are already well-off."

By far the largest wealth-holding for most households, particularly minorities,



is equity in their homes. Total wealth (financial assets such as bank accounts, stocks, and bonds, plus equity in homes and other property) averages $263,760 among middle-aged white families and less than $80,000 among blacks and Hispanics. But financial assets average just $72,521 among whites and less than $13,000 among minorities.

Such averages, however, are inflated by a small number of very rich families. In the more typical median white household, financial assets amount to only $17,300—perhaps a half-year's wages. Among middle-aged black and Hispanic households, median financial resources come to only $400 or less.

Indeed, some 20% of middle-aged white families and 40% of black and Hispanic families have virtually no liquid assets. Even at the 90th percentile—just below the top 10%—financial assets total just $174,500 for whites and less than $34,000 for minorities.

In short, at a time when pension coverage among young workers is declining and Social Security benefits are headed for cutbacks, most Americans still seem to rely mainly on Social Security and pensions for a comfortable old age. "To avoid a crisis in coming decades," warns Smith, "we need to take steps now to encourage savings before the ranks of retirees explode."

WHEN IS A SLIDE NOT A SLUMP?

Deciphering the leading indicators

The rule of thumb among U.S. economy-watchers is that a three-month decline in the index of leading indicators is a fairly reliable sign that a recession is apt to materialize within 8 to 12 months. So how should one react to the recent four-month slide in the index, from February through May?

Don't press the panic button, advises Citibank's *Economic Week*. The bank's gurus point out that the leading index was revamped in 1993, including a statistical adjustment that reduced its upward trend. As a result, consecutive dips are now more common and less likely to foreshadow an outright recession.

Tracing the revamped index's path over the past 25 years, Citibank finds that it would have turned down about a year prior to every recession. But it would also have flashed half a dozen false alarms. And that includes a continuous eight-month decline starting in the spring of 1984, when a half-decade of expansion still lay ahead. So Citibank's economists think it's decidedly premature to conclude that the latest decline signals anything more than a slowdown.

'I GOT IT 'CUZ IT WAS ON SALE'

Discounts spark a spending surge

Recent retail-sales data seem to confirm that the long-awaited rebound in consumer spending has arrived. With May and June receipts up 0.9% and 0.7%, respectively, sales in the second quarter surged at a 3.8% annual clip.

Economist Joseph G. Carson of Dean Witter Reynolds Inc., however, doubts that a new spending spree is under way. He points out that the biggest increases were in sectors where heavy discounting were helping spark consumer interest.

Sales at general merchandise stores, for example, increased at a 10.5% annual rate in the three months ending in June—just as apparel prices tumbled at a 2.5% annual rate. Similarly, previously slumping furniture-store sales rose at a 3.1% annual clip in the second quarter, as furniture prices fell 1.4%. And the healthy pickup in car sales at dealers seems to have been fueled by cash rebates running as high as $2,500 on some models in June.

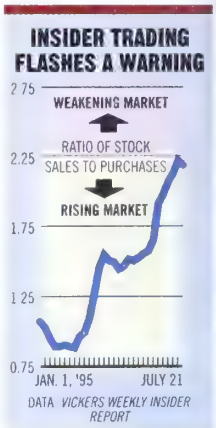
Such bargain-hunting merely borrows sales from future demand, maintains Carson. "I still expect slow growth in consumer spending, punctuated by occasional spurts as retailers attempt to lift demand with discounts," he says.

THE RUNNING DOWN OF THE BULLS

A big shift in insider trades

If you follow the insider-sentiment stock market indicator printed weekly in BUSINESS WEEK (page 83), you know it has suddenly changed its tune.

The eight-week sell/buy ratio of insider trades compiled by *Vickers Weekly Insider Report*, which foreshadows rising markets when it falls below 2.25, has now risen close to that level. It was a lot lower and more bullish a few weeks ago—when compilers realized it was distorted by a recent change in data-collection method. The corrected index shown below suggests that the big bull move it signaled at the start of the year may be running out of steam.



That jibes with the well-known tendency of stocks to rise in the years before Presidential elections. Indeed, the 18.6% increase in the Standard & Poor's 500-stock index in the first half of this year ranks among the top six first-half rallies of the past 60 years, five of which have occurred in the third year of a Presidential term. Unfortunately, note analysts at SCI Capital Management Inc., every one of those big first-half rallies was followed by a loss in the second half—although full-year gains in all but one instance still stayed in the double digits.

AMES C. COOPER & KATHLEEN MADIGAN

ONSUMERS WON'T OPEN HEIR WALLETS TOO WIDE

U.S. ECONOMY

Americans aren't making much more money, but they feel good. That's what the data say. Wages, salaries, benefits grew at the slowest annual pace on record quarter, but in July, consumer confidence bounced fter dipping in May and June.

ne two trends speak volumes about the near-term ook. The jump in confidence is another recent sign consumers are ready to keep on spending (chart). since earnings growth remains squeezed, house- s are not about to start spending so vigorously as evive fears of overly rapid growth and inflation.

espite last quarter's bumpiness, all this fits neatly the soft-landing scenario. And such a combination odest growth with low inflation may not preclude her cut in interest rates by the Federal Reserve.

HE PRESENT LOOKS EAT TO CONSUMERS

EX: 1985=100
DATA CONFERENCE BOARD

Unfortunately, the bond market seems to think that better growth prospects scuttle chances for another rate cut. Bonds have slumped in recent weeks, lifting the yield on the benchmark 30-year Treasury bond to nearly 7% on July 21. The rate has since retraced some of that rise to close near 6.9% on July 26.

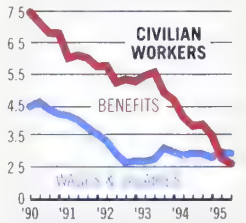
The bond sell-off started Fed Chairman Alan Greenspan's Humphrey-Haw- testimony on July 19, when he suggested that economy was more likely to pick up than to deteri- e. The slump accelerated when Fed Vice-Chair- Alan Blinder said the economy now looked better that he was open-minded about the need for fur- easing. Blinder is thought to have been a major e in the July 6 rate cut.

DESPITE THE ECONOMY'S firmer look, prospects low or declining inflation appear to be the chief or in the Fed's thinking right now. That was the on it gave for the rate cut, and Greenspan hinted falling price pressures would be a condition for fur- easing. The Fed's latest forecast actually projects r inflation in 1996 than in 1995. That's a forecast bond market should love.

nances are good that the Fed's forecast will be t. That's because labor costs, the main force behind tion, continue to grow at a slower pace. In the nd quarter, the Labor Dept.'s employment cost in- for all civilian workers—a measure of what businesses shell out for wages, salaries, and benefits—rose only 2.9% from a year ago. That was the same pace as in the first quarter and the lowest since Labor first started keeping records in 1982.

The growth of wages and salaries has actually stabilized. Straight pay is up 3% from a year ago, and it has grown between 2.8% and 3.1% annually during the past three years. Annual wage growth was equal to inflation last quarter after running slightly above it during the previous seven quarters. This measure of hourly pay shows some small gains in real purchasing power.

BUSINESSES CONTINUE TO TRIM BENEFITS



▲PERCENT CHANGE FROM A YEAR AGO
DATA LABOR DEPT., BUSINESS WEEK

However, the biggest reason for the slower pace of compensation costs is the five-year slowdown in what businesses are paying out for benefits (chart). Such packages, about a fourth of total compensation costs, grew only 2.6% during the past year. That record low is down from 3.8% a year ago, and the pace has fallen steadily since reaching its recent peak of 7.4% in 1990.

Last quarter, as in recent quarters, less growth in benefits reflected a continuing slowdown in the cost to employers for health insurance, workers' compensation, and state unemployment insurance.

THE SLOWDOWN in compensation runs across all broad sectors. However, during the past year, workers fared better in service-producing industries than with goods producers (3.1% vs. 2.4%). White-collar occupations did a bit better than blue-collar (3% vs. 2.6%). And compensation for nonunion employees was up faster than that for union workers (2.9% vs. 2.3%).

Unions are having no luck hammering out better wage deals. Major collective-bargaining agreements settled in private industry in the second quarter lifted wages an average of 2.1% in the contract's first year and 2.2% annually over the life of the agreements. However, the wage settlements were, on average, lower than the agreements they replaced, and that has been the case now for 11 consecutive quarters.

While the slowdown in compensation bodes well for the inflation outlook, it is also a key reason why consumer spending in this expansion has grown slower than in any previous upturn—and why that trend should continue.

Consumers remained in fairly good spirits in July,

ERIC HOFFMANN BW

however. The Conference Board's index of consumer confidence rose to 99.9 after slipping for two consecutive months. The rise recovered about half of that decline. The Board says the July reading is a "reassuringly strong level" and that households remain optimistic about the economy's health.

In particular, consumers' assessment of present conditions rose to a five-year high. And that's on the heels of what will probably be the weakest quarter of the year. Clearly, if the labor markets have deteriorated, that hasn't much affected consumers' attitudes.

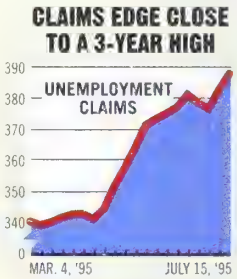
WITH THAT IN MIND, one indicator to keep an eye on is initial jobless claims. They jumped sharply in each of the two most recently reported weeks, hitting 417,000 for the week of July 15. The four-week average of claims is now at the highest level since October, 1992 (chart). Claims for the week of July 8 were revised up by an unusually sharp 29,000, to 399,000, due mainly to a "significant keying error," says the Labor Dept.

Typo or not, the rise in jobless claims has not quashed consumers' hopes that the labor markets have improved. The Conference Board said more people in July felt jobs were plentiful than in June.

Greater optimism about job prospects may explain why the board's survey also found that more consumers planned to purchase homes and cars during the next six months. Indeed, sales of existing single-family homes rose 6.5% in June, to an annual rate of 3.78 million, following a 4.7% increase in May. That was the strongest two-month increase since 1983.

If consumers are confident enough to commit to a home purchase, they are usually looking to buy other goods as well. After solid gains in retail sales in May and June, July sales appear to be off to a good start. Sales at department and chain stores in the first three weeks of the month rose 1.2% from June, partly lifted by demand for hot-weather items, according to a survey of retailers by the *Johnson Redbook Service*.

Can consumers keep it up? Thus far this year, much of their buying has been done on credit. With installment debt rising toward record levels, especially when compared with disposable income, households will have to start trimming their use of plastic, and that cutback may sideline some shoppers.



▲THOUSANDS, FOUR-WEEK MOVING AVG.
DATA: LABOR DEPT., BUSINESS WEEK

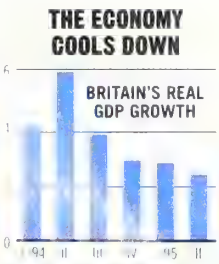
Still, consumers base much of their spending decisions on their individual prospects for employment and income growth. And the latest data show that while pay raises aren't very exciting, consumers remain confident enough to keep spending into 1996.

BRITAIN

THE KEN AND EDDIE SHOW CONTINUES

Is the British economy slowing down enough to quell the policy rift between Chancellor of the Exchequer Kenneth Clarke and Bank of England Governor Eddie George? Their May and June meetings went the same way: George asked for a rate hike, and Clarke said no.

At the July 27 confab, Clarke came armed with a load of fresh data showing a cooler economy. Real gross domestic product rose at a quarterly rate of 0.6% in the second quarter, down from 0.7% in the first, and growth over the past three quarters has slowed sharply (chart). The slowdown mainly reflects weaker domestic demand, resulting from three interest-rate hikes since last September and higher taxes.



▲QUARTERLY PERCENT CHANGE, ANNUAL RATES
DATA: DATASTREAM INTERNATIONAL

Most recently, the Confederation of British Industry's quarterly survey shows weaker growth in the factory sector. It says output is rising at the slowest rate since April, 1994, and orders are waning along with business confidence. Moreover, the Association of British Chambers of Commerce say the slowdown is spreading to the service sector.

The data are now so convincing that George may have to back down from his rate-hike request. But unless the BOE sharply alters its inflation outlook, the bottom line for George is that underlying inflation, excluding mortgages, stood at 2.8% in June and has exceeded the government's goal of 2.5% all year. Most private economists expect it to rise, remaining above 3% in 1996.

With the Tory leadership weakened, Clarke seems inclined toward a looser policy mix. The government has all but promised a tax cut before the next election, to be held by May, 1997. For Clarke, the slowdown could be a mixed blessing: It lets him deflect calls for higher rates, but if it reduces revenues, a tax cut could bust his budget goals. Even if there is room for a tax cut, George has suggested that a looser fiscal policy will have to be offset by a tighter monetary stance. So even as the economy slows, the policy rift could take a new turn when the next budget is unveiled in November.

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"★★★★½"

PC/Computing, November 1994

"BEST INTEGRATION."

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Analyst's Choice, *PC Week*, January 16, 1995

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INVESTIGATIONS

DID DIRTY TRICKS CREATE A BEST-SELLER?

Sales may have been manipulated to land this book on the *Times* list

Susan Hensley was sitting in her glassed-in office on the floor of San Diego Technical Books Inc. on Jan. 25 when she received an intriguing phone call from a woman who identified herself as Leeann Falzone. Falzone said that she wanted to buy 125 copies of *The Discipline of Market Leaders*, a just-released book from Addison-Wesley Publishing Co.

Hensley, the store's president, didn't have nearly that many in stock. No matter. Falzone wanted the books shipped directly from Addison's warehouse to a corporate address in San Francisco. All Hensley had to do was process the paperwork. Hensley's store would pocket about $1,000 on the $2,412 order. "The arrangement sounded kind of fishy to me," recalls Hensley, "but it was easy money, so I took the order."

During the following months, dozens of bookstores across the U.S. received similar calls. By filling the orders, a BUSINESS WEEK investigation reveals, they unwittingly aided the book's authors and publisher in what appears to be a carefully planned campaign to inflate sales and breach the integrity of the prestigious *New York Times* best-seller list along with other such tallies, including BUSINESS WEEK's monthly list of best-selling business books. It isn't clear whether such alleged practices would be illegal, but publishers and booksellers say they are highly unethical.

TREACY: *He says it was smart marketing and denies any wrongdoing*

Discipline was written by a pair of ambitious consultants, Michael Treacy, 39, and Fred Wiersema, 43. Treacy, a former assistant professor at Massachusetts Institute of Technology's Sloan School of Management, consults regularly for CSC Index, an international consulting firm, and keeps an office at its Cambridge (Mass.) headquarters; Wiersema is a senior vice-president at the firm which shares *Discipline*'s copyright with

authors. Falzone is
SC secretary who
ks for both consul-
s. The basic theme
he book: that com-
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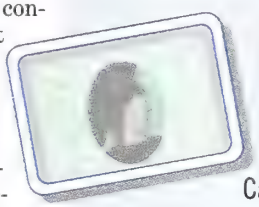
publishing jackpot,
oming a 2 million-
y best-seller. By Mar. 5, Treacy and
rsema's 208-page hardcover climbed
the *Times'* nonfiction list at No. 8,
as recently as July 9 had appeared
a total of 15 weeks. It was No. 1 on
INESS WEEK's most recent list. Trea-
and Addison-Wesley estimate that
s for the book so far total 230,000.
lison-Wesley is a division of London-
ed Pearson PLC.

But interviews with more than two-
en bookstores across the nation, as
l as over 100 interviews with book in-
try representatives, indicate that CSC
ex and the authors spent at least
0,000 buying more than 10,000 copies
Discipline. In addition, CSC funneled
k purchases by corporate clients of
ther 30,000 to 40,000 copies through
kstores. Addison-Wesley says the
s were spread to bookstores across

The Making of a Best-seller: One Tactic

1 From CSC Index's offices in Cambridge, Mass., a staffer named Leeann Falzone makes a phone call to...

2 ...Catherine Weller, a back-office employee of Sam Weller's Zion Bookstore in Salt Lake City. An order is placed for 25 copies of the $25 book. The date of the order is Feb. 21, 1995. Sam Weller's pays $9.60 per copy and sells it for $17.50.



3 The total price of $470.32 is charged to Aaron Clayton's American Express Card. Clayton is a consultant who works for CSC Index. He is later reimbursed by CSC for the full amount.

4 The books are shipped from Addison-Wesley's warehouse in Indianapolis to Paragon in Oxford, Ohio, a marketing firm that does promotional mailings for CSC.

Sam Weller's never actually touches a single book, but processes and gets credit for the order.

5 So many books are shipped to Paragon that some are stored in a tractor-trailer parked outside the office. Paragon ultimately receives more than 10,000 copies of the book, all paid for by CSC.

6 Sam Weller's then reports sales that week of 25 copies. Similar transactions were repeated dozens of times in early 1995. The book hits *The New York Times* best-seller list in March.

ILLUSTRATIONS BY ALBERTO MENA/BW

the U.S. as part of its Triangle program, meant to give retailers a cut of corporate sales—hardly a nefarious practice. But bookstore sources who talked to Treacy say the purchases were systematically made in relatively small numbers at key locations. They say the plan, which was based on extensive research by Treacy into how books hit the best-seller lists, was to create the appearance of widespread demand for their book.

Why did Treacy and his partner go to all the trouble? "*The New York Times* has the preeminent national best-sellers list; getting on the *Times* list has many potential financial rewards beyond prestige and personal cachet," says Stuart Applebaum, a spokesman for Bantam Doubleday Dell Publishing Group. Best-sellers get better display in stores and typically fetch bigger fees when foreign and paperback rights are sold. Their authors get bigger advances the next time around.

But the real rewards lie beyond book sales. Wiersema and Treacy have become business celebrities and hot items on the lecture circuit. Treacy, who is now giving some 80 speeches a year, charges $30,000 per talk, up from $25,000 a year ago. Wiersema's fee is normally $20,000. Who shells out those kinds of bucks? Lots of folks, including The McGraw-Hill Companies (BUSINESS WEEK's parent), which paid Wiersema $30,000 in June to address senior executives at a retreat in Leesburg, Va.

Best-selling books also have become key marketing tools for consulting firms. They build credibility in the marketplace and popularize a firm's proprietary management concepts and trademark buzzwords. CSC, with revenues of about $250 million and some 300 consultants, has emerged as one of the nation's fastest-growing consulting firms—at least partly because of the widespread success of *Reengineering the Corporation*. Eager to prove that the firm is not a one-trick pony, CSC began to back Treacy and Wiersema's value-discipline approach. A best-selling book could win mass acceptance for the idea and allow CSC to gain tens of millions of dollars in consulting fees.

Of course, lots of authors buy extra copies of their work directly from publishers to hand out to friends and clients. Gemini Consulting, for instance, says it bought as many as 5,000 copies of *Transforming the Organization*, published by McGraw-Hill and written by two Gemini consultants. Those sales may have played a role in propelling that book to the No. 1 spot on BUSINESS WEEK's July 3, 1995 best-seller list.

Most best-seller lists try to weed out

such bulk sales when making their tabulations. But CSC placed dozens of small orders at retail—an inefficient and costly approach that improved the chances that the purchases would be included in the best-seller counts.

Treacy and Addison-Wesley deny taking part in any such scheme. Treacy says the numerous small orders were made as speaking engagements and client requests were booked. "Did we aggressively and energetically market the book? You bet," says Treacy. "Did we cross the line? Absolutely not. No way we did anything unethical." Treacy says that he has "no clear recollection" of ever researching how to make the book a *Times* best-seller; he says fewer than 10,000 books were purchased by CSC, all for legitimate purposes.

Wiersema also denies taking part in any scheme. "I want to distinguish smart marketing to get a book promoted well, and manipulation," says Wiersema. "We did all the right things to market a book." Addison-Wesley also denies that it took part in any unethical marketing practices.

"SULLIED." For its part, the *Times* stands by the integrity of its list. "We were on to the bulk purchases of *Discipline* for months," reports Michael Kagay, news surveys editor for the *Times*. "We are confident that our list has not been manipulated." CSC, in a brief written comment, said the book's popularity was propelled by its own merit, and declined to respond further.

Sources close to the authors and publisher say the campaign was orchestrated by Treacy and carried out with the help of Wiersema, Addison-Wesley, and CSC. The notion of systematic purchases designed to distort the real demand for the book outrages many people in publishing, who believe that an attempt to buy a place on a best-seller list would be misleading to book buyers and other publishers. "I'm sad to see our distinguished profession sullied by these operators," said Roger Straus Sr., president and CEO of Farrar Straus & Giroux, when told of the alleged scheme. "I think it's disgusting."

Here's how the campaign worked, say sources who claim Treacy confided in them: As early as last fall, Treacy was working the phones, picking the brains of many of the nation's best-known business-book buyers, including, for example, Brian Baxter of Baxter's Books in Minneapolis and LeeAnn Langdon of The Library Ltd. Bookstore in St. Louis. Several booksellers reported the same refrain from Treacy: "How can we ensure that *Discipline* becomes a best-seller?" Treacy and Wiersema say that, as good marketers, they merely did extensive research aimed at making the book a success.

WIERSEMA: *We did all the right things*

After many such interviews, Treacy seems to have learned three valuable lessons: To ensure best-seller status, the massive book purchases had to be spread nationwide among the right bookstores; they had to be carefully spaced so as to not alert the *Times'* computers; and the purchases could not be traced to the authors o the firm.

Getting a list of the righ bookstores proved relativel easy. Addison-Wesley sale representatives told BUSINES WEEK they were asked b Margo Hanson, the firm's na tional field sales director, t call corporate headquarters i Reading, Mass. with names c stores in their areas believe to report to the *Times*. Goeh ring says that like all publish ers, his company routinel seeks such information. The names ar supposed to be secret, but stores eage for corporate sales often let their statu slip to sales reps. Later, the reps say Hanson pressured them to try to discern if these stores were reporting Falzone' purchases as part of their weekly sales Hanson said she could not comment.

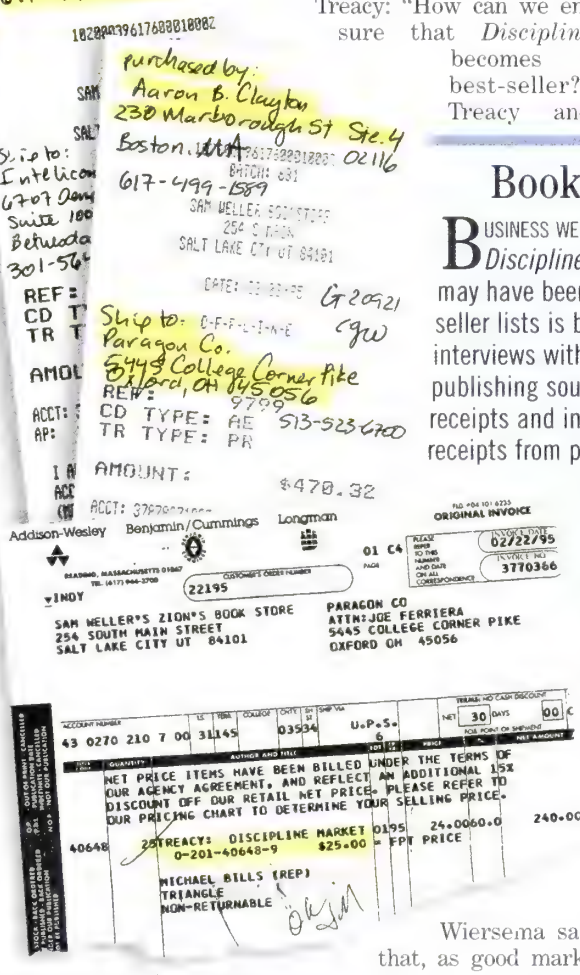
But a major problem loomed: Hov to make sure CSC' purchases weren' screened out by th *Times*? The newspa per's methodology i secret, but it pur ports to be able t detect and eliminat institutional buys o other unusual sale blips—supposedl making manipulatio through bulk pur chasing by well heeled authors o publishers impossible

Falzone and Lor Caturano, anothe CSC Index secretary were tapped to han dle the transactions In some cases, the simply used credi cards belonging t CSC consultant around the country The card-holders were reimbursed b the firm. The books were shipped t CSC clients, vendors, and, in at least on case, to a CSC office under the name of a company CSC bought years earlier. Tha way, the names of neither the firm, no Treacy, nor Wiersema ever surfaced.

For example, an AmEx card used b Falzone for a corporate order belonge to Aaron B. Clayton, a CSC consultant i Cambridge, according to sales record supplied by the bookseller. Treacy say the consultants routinely ordered an charged the books themselves to culti vate their own clients. Clayton decline to comment. The order, placed with

Booking Sales

BUSINESS WEEK's account of how *Discipline of Market Leaders* may have been pushed onto best-seller lists is based on dozens of interviews with booksellers and publishing sources, and a trail of receipts and invoices. At left, receipts from phone orders placed by Leeann Falzone, a CSC secretary, to Sam Weller's Zion Bookstore. One purchase was charged to a credit card owned by CSC's Aaron Clayton and was shipped to Paragon Co.



: Lake City store, was shipped to a affiliate office in Bethesda, Md., un- a corporate name, Intelicom, that n't been used since 1994.

Many booksellers besides San Diego hnical, including Elliott Bay Book in Seattle and Brown Book Shop in uston, took profitable orders from zone. The retailers typically paid dison-Wesley $9.60 for each book sold it at $17.50. "I loved those ers from Leeann," recalls Sherie las of Brown. "It was easy money we didn't have to touch the books." fact, so liberal was Falzone with orders that booksellers came to her as a safety net. "One month, I I wasn't going to make my num- s," says one buyer. "I called Leeann told her I needed a big order. She ivered. It was a hell of a gravy n."

MAND AND SUPPLY. Many bookstores orted getting calls from Falzone to d books to Paragon Co., a database rketing firm in Oxford, Ohio. Paragon sident Ron Lerman acknowledges t CSC is a client and that CSC had d for the 10,000-plus copies of *Disci- ne* sent to his firm. Total cost to CSC: out $200,000.

Treacy says Paragon often handles ss mailings for CSC, and the books ear to have been used for legitimate motional purposes. However, sources e to Paragon told BUSINESS WEEK t Lerman had boasted around the ce that he was part of a "clever eme" to help CSC get the book on *Times'* best-seller list. At one point, many copies of *Discipline* were pour- into Paragon's office that they had e stored in a tractor-trailer Paragon ntained outside its former office on lege Corner Pike.

To make sure that the *Times'* com- ers would not detect any unusual ges, sources say, orders were placed steady intervals around the country. *Times'* Kagay says that if such tac- were used, they wouldn't have rked. He says the *Times* routinely ed booksellers about bulk purchases *Discipline* and discounted overall es to account for them. None of the ny bookstores BUSINESS WEEK spe- ally asked about such calls from the *nes* said they had received one. If *Times* was duped, it wasn't alone. cording to information supplied by book's publicists at Addison-Wesley, *cipline* appeared on every major t-seller list in the country.

Of course, plenty of real-live readers ght the book by Treacy and Wierse- The question is, would *Discipline* e become a market leader on its n merits?

By Willy Stern in New York

AIRLINES

HOW HIGH CAN THE AIRLINES FLY?

A banner year, but new taxes and labor troubles lurk

GOING MY WAY: *Airports such as O'Hare are overflowing*

Summertime, and the airports are jumping: From LAX to O'Hare to LaGuardia, the nation's landing strips are jammed with vacationers such as Kim Abram, a Chicago Housing Authority administrative assistant flying with her kids to Las Vegas to visit the sister she hadn't seen in three years. "The little ones didn't sleep the night before the flight because they were so excited," Abram says. "We'd never taken a family trip like this before."

Add in the throngs of executives traveling to keep up with the growing economy and foreign tourists cashing in on the weak dollar, and the airline industry is in the midst of an unaccustomed bonanza. After a bruising five-year span in which they lost an accumulated $13 billion, carriers should record $1.3 billion in profits for 1995 (chart, page 26). On July 21, even USAir Group Inc., just months ago an industry basket case, reported an eight-fold earnings increase in the second quarter, to $112.8 million. Four days later, UAL Corp., parent of United Airlines Inc., weighed in with net income of $151 million, nearly triple profits of a year earlier.

Airline stocks are up 52% so far this year; UAL shares alone climbed $4, to $149.50, on the company's earnings news. Why the boom? Look at the industry's formidable operating data: Planes are flying 72% full, up 1.5 points from last year. Airfares in June were 5% higher than those a year ago, with lucrative business-class fares up 7%. That boosted yields, which had been down earlier this year, by 2.2% to 13.52¢ per passenger mile. Even the beleaguered aircraft construction business is showing signs of strength. Although U.S. carriers aren't buying new jets, demand from overseas has lifted orders at Boeing Co. to 203 planes this year, well above 1994's full-year total of 120 orders.

Skeptics, nonetheless, believe that the turnaround is a fluke that's bound to fade fast. The industry, they argue, is profiting from a healthy economy, fuel prices that are 5% below last year's level and free of federal taxes, relatively few fare wars, and cost structures lowered by austerity plans. The lull could prove deceptive: "There was an economic imperative to cut costs when the industry was losing billions of dollars," says Jeffrey Long, analyst with J.P. Morgan Securities Inc. "Now that

TAKEOFF

Airline stocks, as a group, have climbed an impressive 52% so far this year

MARC POKEMPNER/IMPACT VISUALS

they're making money, they've got to keep their motivation. And it's a long, long recovery process."

Airlines say they're up to the task. Consider some highlights from the major carriers. Northwest Airlines Corp., on the brink of bankruptcy only two years ago, has eliminated routes, negotiated wage cuts averaging 15%, cut aircraft orders, and turned in record profits. American Airlines Inc. has been grounding costly 727s and DC-10s; reductions and reengineering at headquarters are expected to save $93 million a year.

Delta Air Lines Inc. could save $80 million by cutting travel-agent commissions and is outsourcing information systems and other operations. And United, employee-owned since last summer, has cut wages by $70 million and put employee teams to work on such problems as absenteeism and ticketing costs. "We're supposed to protect ourselves from exuberance during the good times," says United chief financial officer Douglas A. Hacker. "But I don't see any signs that the good times are in danger of going away."

He might look just a little harder. The biggest immediate threat to carriers is the government's plan to implement a fuel tax in October that could cost the industry $500 million a year. The Air Transport Association is lobbying heavily against the tax. "Labor in the industry has given up $1 billion in concessions," says an ATA spokesman. "The tax would wipe them out." So far, at least, the pitch seems to have worked: A majority of the tax-writing House Ways & Means Committee is backing a bill to extend the fuel-tax exemption beyond its October expiration.

The profit turnaround could be soured by another key issue: labor relations. Consider USAir. In the days before the once-struggling carrier announced its second-quarter profit, flight attendants voted down a tentative contract, machinists delayed a vote, and the pilots' executive council decided against asking rank-and-file to vote on a proposed deal.

USAir isn't alone. Delta and American both are negotiating with pilots likely to use the profit turnaround to dodge wage and work-rule concessions the carriers have proposed. Delta wants pilots to give up $340 million a year in pay but is resisting the pilots' push for an equity stake and board representation. "As the profit picture improves, you'll see our attitude harden," predicts Delta pilot Cam Foster, who is part of the Air Line Pilots Association negotiating team.

NO FRILLS. But the majors will have to keep pushing their cost-cutting programs if they hope to compete with low-cost carriers. Even as ValuJet Airlines Inc. flies planes 85% full on some weekends and runs at a cost of only about 7.7¢ per mile flown—nearly half that of major carriers—the Atlanta-based startup is looking to cut expenses. "We're debating whether we can continue with both peanuts and pretzels," jokes ValuJet president Lewis H. Jordan. Low-cost veteran Southwest Airlines Co., which saw profits decline in the first quarter, has rebounded in part by cutting unprofitable weekend flights and improving its reservations capacity. It will expand into the huge Florida market next year, putting more pressure on USAir, Continental, and Delta.

Discounters may be capping the ability of the major carriers to cash in on increased traffic. Although low-fare carriers claim they're fighting for vacationers who would otherwise drive, they're actually attracting a growing share of the business market, too. Indeed, despite strong demand and Continental's decision to abandon its Continental Lite low-fare strategy, domestic discount fares are down 7% this year. "The airlines have people hanging off the wings because the planes are so crowded, but the revenue has barely jumped," grouses Barbara L. Beyer, president of consulting firm Avmark Inc.

That's why few executives are crowing about the good times. "History will definitely repeat itself," says Southwest Chief Financial Officer Gary C. Kelly. "You'll see fare wars, overcapacity in certain markets. No one can predict whether or not a fuel spike is in front of us, and when or whether we'll be in recession." The airline industry has bred a bunch of pessimists. Better that, though, than executives fat, happy, and awash in red ink.

By David Greising in Atlanta, with Wendy Zellner in Dallas, Susan Chandler in Chicago, and bureau reports

The most immediate threat to airlines is a plan for a fuel tax that could cost the industry $500 million a year

BANKING

A RISKY GAME OF HARD-TO-GET

Bank of Boston may rue its choosiness

Y SO COY? *"We're 211 years old....We're going to stand back," says Stepanian*

'a Stepanian is one reluctant suitor. The Bank of Boston Corp. chief has brought his much-coveted institution the altar no fewer than five times in ent months, only to see would-be rger partners slip away. Just last ek, three big banks—CoreStates Fi- ncial, Mellon Bank, and Banc One— k a pass on the $45 billion Boston nk. Earlier this year, Stepanian fum- d deals with New Jersey's First Fi- ity Bancorp. and with rival New gland giant Fleet Financial Group.

What is Stepanian's problem? Critics the cautious, detail-minded CEO has en immovable on too many key is- es: notably, maintaining the Bank of ston's name, holding on to its Bos- headquarters, and keeping control in managers' hands. Asks one incredu- s investment banker: "How can you rge with Bank of Boston and use ir name, their headquarters, and let m run it? It's not going to happen."

FAZED. But as the tempo quickens in nking's fast-moving ne of musical chairs, panian's inflexibility y leave him scurry- for a seat. Unallied, nk of Boston will be rd-pressed to remain global player against ger rivals. Worse, it ks becoming prey in unwanted takeover. Stepanian says he d his board are un- ed. "We have a pret- clear idea of what think are important tors" in a merger, CEO says. "We're 211 years old, and we think we bring something to the table." What's more, he says he's under no pressure to merge. "We're not closing our eyes [to deals]... but right now, we're going to stand back and take stock," says Stepanian.

His unyielding stance is nothing new. Bank sources say Stepanian's intractability has scuttled deals, including one with Shawmut National as far back as 1992. "The man has to win every negotiating point," says one top banker. Adds Harry Keefe, a large Bank of Boston shareholder: "It comes down to ego."

In the midst of the current flurry of mergers, bankers simply can't be bothered to woo coy targets. First Fidelity, for instance, got serious with Stepanian on a deal that many Bank of Boston directors supported, say sources close to the bargaining. But when Stepanian's sessions with First Fidelity Chairman Anthony P. Terracciano bogged down, First Union Corp. in Charlotte, N.C., slipped in to snap up First Fidelity for $5.1 billion—a hefty premium over its book value. First Fidelity declines to comment.

Nobody questions the CEO's skills as a banker. The son of Armenian immigrants, Stepanian, now 58, is one of the bank's first non-Brahmin chief executives. He took the job in 1987 following a fast-track commercial-lending career. After pulling the bank out of a near-disastrous bout with bad real estate loans, he turned it into a big moneymaker. The bank's net income jumped 41% in the second quarter, to $133 million, and its 18% revenue growth was No.1 among 27 peers. Many bank analysts have recommended its stock this year, driving the share price from about 26 to more than 41.

BRONX CHEERS. But dealmaking clearly is not Stepanian's strong suit. On July 20, he persuaded his board to proceed with a $4.3 billion merger with CoreStates, Philadelphia's largest bank. A proposed $4.6 billion alliance with Pittsburgh's Mellon Bank made him uneasy, bank sources say, because of likely deep cost-cutting.

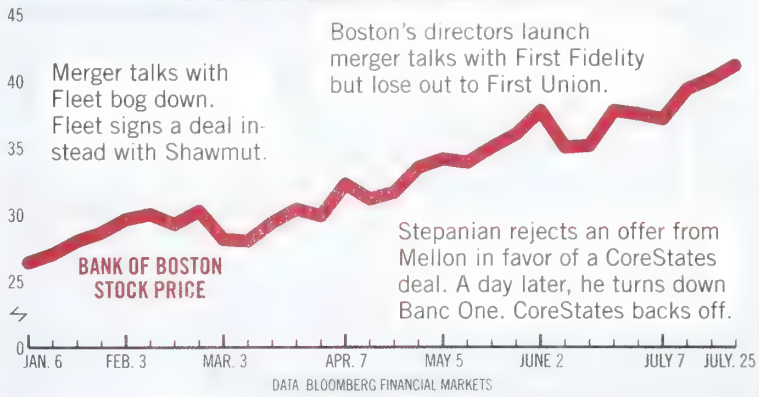
But the next day, after word of the CoreStates deal leaked, the Bronx cheers were overwhelming. Institutional investors complained that the offer of $38 a share was too low. Analysts argued that the deal had no obvious cost savings or benefit to shareholders. The Boston bank's stock slipped by 1¾, to just over 40.

The argument became moot when Banc One Chairman and CEO John B. McCoy telephoned Stepanian and offered $45 a share, or $5 billion. Stepanian "politely" said no, McCoy says. Stepanian declined comment. But this offer made the CoreStates deal pale: Talks with CoreStates collapsed on July 22.

Obviously, McCoy was looking to play the spoiler with CoreStates. And he's not apt to make a hostile run at Bank of Boston. Still, with such heavyweights showing interest, Stepanian will have a hard time insisting on a deal on his terms only. The Wall Street rumor mill buzzes with potential suitors, such as NationsBank and Bank of America. The looming question: What will Stepanian do if the best matches all are made and his bank winds up as the industry's last old maid?

By Geoffrey Smith in Boston, with Zachary Schiller in Cleveland and Kelley Holland in New York

A TRAIL OF BROKEN HEARTS



DATA BLOOMBERG FINANCIAL MARKETS

PHOTOGRAPH BY BARRY THIBODEAU; CHART BY ALAN BANDER

RESEARCH CENTER: *Others scoffed at P&G's work on ulcer-causing bacteria*

DRUGS

PROCTER & GAMBLE HEADS FOR THE MEDICINE CABINET

The new CEO plans to double its health business by 2000

John E. Pepper, Procter & Gamble Co.'s new CEO, was quick to signal his priorities after taking the top job on July 1. Opening a $280 million health-research center outside Cincinnati on July 19, Pepper put drugs—both over-the-counter and prescription—near the top of his agenda. His lofty aim: to double P&G's $3 billion health business by 2000, and boost it to as much as 20% of sales in the next decade, twice its present share.

Rivals have heard that kind of talk before—and laughed it off after P&G promptly focused on beauty products or soap instead. After all, turning out new versions of Tide is safer, cheaper, and easier than devoting a dozen years and several hundred million dollars to drug bets that too often wind up failures.

FRESH BLOOD. But now, P&G seems serious. It is spending $400 million annually on health research—nearly double its R&D outlays on detergent or paper. It has formed 11 alliances to develop everything from an estrogen patch to blood-pressure treatments and has 30 more deals under discussion. And in an unusual break with its promote-from-within policy, it has lured some 30 researchers and regulatory specialists from such rivals as Upjohn Co. and Pfizer Inc.

Can the peddler of Pert and Pantene be anything more than a bit player in drugs? Even $400 million is small potatoes compared with the billion-dollar-plus research budgets of a Merck & Co. or Bristol-Myers Squibb Co. "The big are getting bigger. The small are going nowhere," says Neil B. Sweig, an analyst at Ladenburg, Thalmann & Co. "The only way to move forward in that business is by major acquisition."

Not so, insists Pepper. "Do you have to be a Merck, in the top five or six? I don't think so," says the CEO. Indeed, the company is shunning acquisitions that could give it critical mass instantly, preferring to innovate internally or through joint ventures. Says Thomas A. Moore, P&G's president of health-care products: "If you can't get innovation right, acquisition is a bad use of your shareholders' money."

No one disputes P&G's over-the-counter clout. Not with Vicks cough and cold remedies, Metamucil laxative, and Pepto-Bismol, anyway. And it's now hawking a new form of Crest toothpaste as a gum-disease fighter. Its Aleve pain reliever, launched a year ago, got off to such a fast start that the company temporarily couldn't make enough. P&G now claims 6.5% of the market.

P&G seems determined to succeed behind the pharmacy counter, too, and expand its $550 million prescription-drug business. But its stumbles show how risky drug research can be. Four years ago, P&G's etidronate seemed likely to garner $500 million a year. But P&G has been unable to win approval from the FDA to sell it as an osteoporosis fighter. One problem: The drug seemed in one study to actually increase fractures, though P&G calls the problem a "statistical quirk." P&G has given up on getting U.S. approval, even though regulators in 15 other countries have accepted it.

Instead, the company is focusing on the more powerful risedronate. Problem is, while P&G continues its tests, rival Merck is preparing to surge into the market with Fosamax, a drug some analysts say could be worth $1 billion a year before long. Merck will have a two- or three-year head start on P&G. "It's an uphill battle," says Merrill Lynch & Co. analyst Stephen Buermann.

VISIONARY. But P&G can claim victories. Early on, it saw the potential for a class of substances known as bisphosphonates in treating osteoporosis and is now in final human tests for risedronate, one of these chemicals. It led research examining whether peptic ulcers might be caused by a bacterium at a time when that theory, now accepted, was derided as a crackpot notion. P&G's "triple therapy"—the active ingredient in Pepto-Bismol and two antibiotics—is seen by some researchers as the gold standard for eradicating the *H. pylori* bacterium. P&G formally sought FDA approval for the therapy on May 26.

Rivals aren't yielding to P&G on such combination treatments, though. Glaxo Wellcome Inc. and Abbott Laboratories Inc. have filed U.S. applications for their own combinations. But P&G expects to deliver better value. After all, that has always worked in soap.

By Zachary Schiller in Warren County, Ohio

P&G'S NEW DRUG BETS:

RISEDRONATE Now in final human trials, this osteoporosis treatment would be the fourth entrant in the market.

AZIMILIDE Also in final human trials, this drug to prevent irregular heartbeats is one of many under development.

HELIDAC A peptic ulcer treatment aimed at killing the bacterium now seen as responsible for most cases, this drug is awaiting approval by the FDA.

ESTROGEN PATCH For menopause and prevention of osteoporosis, this product would enter a crowded field. A new-drug application will be filed with the FDA this year.

DATA: COMPANY REPORTS, BUSINESS WEEK

ILL THIS DRUG ID OBESITY?

gen can't wait to test its fat-fighting phenom on humans

discoverer calls it "leptin," from e Greek *leptos*, meaning thin. Other searchers call it "OB-statin," which slates as "obesity stopper." Amgen which holds the drug's exclusive s, hasn't decided what to call it. for the one in three Americans who erweight—and for millions more simply want to shed a few— weight-loss wonder drug. , it has only been proven tive in mice. But that didn't pen the reception when separate teams of tigators report- the July 28 is- f *Science* that w, naturally ring protein atically ped away fat when ted into tically by mice. ere's not ge mar- for treat- at rodents, ourse. But news likely ave weight-ob- ed Americans ywhere salivating the prospect of a magic y pill. And no company ls to gain more from the ing frenzy than biotech rhouse Amgen, which in uary snapped up the s to products derived the OB gene for a $20 on downpayment plus $70 million to come. "If orks in humans, Amgen may have bought one of biggest products in the ry of the pharmaceutical industry," Edward M. Hurwitz, a biotech an- at Robertson, Stephens & Co. In- , Amgen stock jumped 5%, to 84¼, ly 26, after an analyst leaked word e studies. The real chase starts . "Provided that things go along thly, we will start human testing year," says Amgen CEO Gordon M. er. There's no guarantee that the will work in humans, and a pill —rather than injections—is probably a decade away or more. But given the $1.6 billion company's highly successful track record in speeding products through regulators, the drug could start fattening up profits shortly after the turn of the century.

Even before that happens, the research that spills out of the development process will go a long way toward answering questions about the causes of obesity, a major contributor to such health problems as diabetes, heart disease, hypertension, and arthritis. "This is a major breakthrough in understanding how body weight is regulated," says Dr. José F. Caro, chairman of the department of medicine at Jefferson Medical College in Philadelphia.

Scientists have long known that fatness runs in families and have theorized that at least part of the problem was genetic. Further, they have suspected that the brain regulates body weight like a thermostat controls temperature: When you gain weight, the brain signals you to stop eating and speeds up your metabolism. So they were intrigued last December when researchers led by Jeffrey M. Friedman at New York's Rockefeller University reported that they had found a gene in mice, dubbed OB, that secretes a hormone that seemed to do exactly that.

Now the scientists' first results are in. The verdict? Not only did daily injections of the OB protein dramatically reduce weight as a replacement therapy in obese mice unable to produce their own, but it also worked for overfed fat mice and normal mice. That's good news for Amgen: It means that the protein works even in mice without a genetic defect and could be "the key regulator of body fat," says Frank D. Collins, who headed the Amgen team.

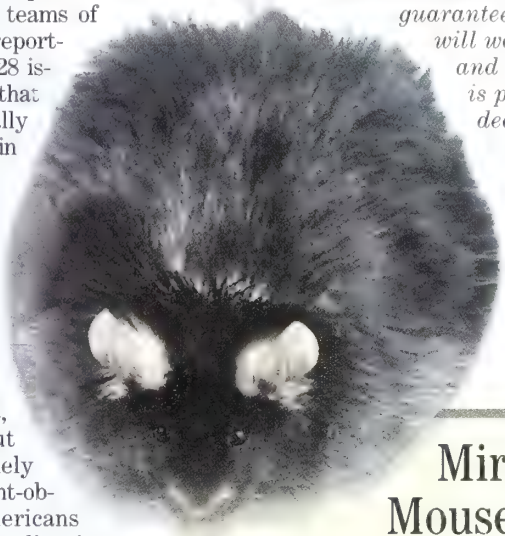
ALTERNATIVE ROUTES. The other studies, by researchers at Rockefeller and at Hoffmann-La Roche Inc., obtained similar results. The Roche team also successfully injected the protein into the brain, bolstering the theory that it acts upon appetite controllers in the brain. Roche, which dropped out of the bidding for the OB gene, is looking for another way to accomplish the same thing. Paul Burn, director of the company's metabolic-disease unit, points out that some obese mice have plenty of the OB protein but fail to respond to its signal. If that's the case in people, he says, "maybe we can find another place in the pathway to intervene." Others are already devising alternatives: On July 26, Millennium Pharmaceuticals Inc. announced that it had cloned another mouse obesity gene called TUB.

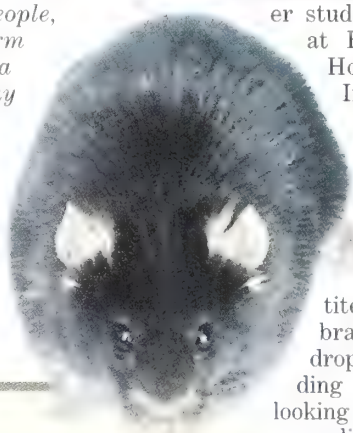
Not everyone is thrilled by the prospect of a quick fix. It's fine for the clinically obese, says Arthur L. Caplan, director of the University of Pennsylvania's Center for Bioethics, but most people would be better off burning calories the old-fashioned way. "We're going to wind up spending billions of dollars because of our weakness of will."

Amgen, in fact, is counting on it.

By Larry Armstrong in Los Angeles and John Carey in Washington, with Geoffrey Smith in Boston

THE BAD NEWS: *There's no guarantee that OB-statin will work on people, and a pill form is probably a decade away*





Miracle Mouse Diet!

Researchers at Rockefeller University gave obese mice daily injections of the "leptin" protein for four-and-a-half weeks

CONTROL MOUSE		LEPTIN-TREATED MOUSE
67 grams	WEIGHT	35 grams
38 grams	BODY FAT	9 grams
14 grams a day	FOOD INTAKE	6 grams a day

DATA: ROCKEFELLER UNIVERSITY

POLITICS

WHY EVERYBODY IS KISSING PEROT'S GRITS

Presidential hopefuls flock to Dallas to court his swing bloc

By all rights, Ross Perot should be a political has-been. Ever since he won 19% of the 1992 Presidential vote, the Texas billionaire has been on a downhill slide. Twice, he lost high-profile crusades to kill deals to expand U.S. trade. And even home-staters ignored his endorsement of Democratic Governor Ann W. Richards in 1994: Texans voted overwhelmingly for Republican George W. Bush.

ELECTION '96

So the Aug. 11-13 issues conference that Perot's organization, United We Stand America (UWSA), is sponsoring in Dallas will be a lonely gathering, right? Hardly. With 8,000 people expected, the event is the hottest ticket of the young '96 campaign season. All 10 Republican Presidential contenders are coming. Ditto House Speaker Newt Gingrich (R-Ga.) and Capitol Hill's top Democrats. President Clinton is taking a pass, but Democratic Party chief Christopher J. Dodd will stand in. Political pilgrims span the spectrum from Jesse Jackson to Pat Buchanan.

There's good reason why Perot's invite is so coveted. Even if his star has dimmed, Perot's '92 supporters are emerging as a crucial swing bloc. Their strong backing for Republicans was vital to last fall's GOP Hill sweep, and now Republicans see the Perotnistas as a key to regaining the White House. "The Perot movement—not Ross Perot—is the story of the 1990s," says the Texan's ex-pollster, Frank I. Luntz. "They have rejected the Democrats, but they have not embraced the Republicans yet."

GUESSING GAME. And Perot seems to want it that way. He's keeping potential rivals guessing about his '96 plans. The Republicans' greatest fear is that another independent bid would split the anti-Clinton vote and let the President retain office with less than half the popular vote. "Perot is like a fox," says GOP pollster Edward A. Goeas III. "He's keeping his options open."

Perot is seeking candidates' commitment to tackle such UWSA priorities as term limits, a balanced-budget amendment, and campaign reform. He has also entered the sensitive debate over runaway health-care spending with a new book calling for radical surgery on Medicare and Medicaid. "We can make sure our issues remain highlighted through the 1996 election," vows UWSA activist Fred W. Everett, president of Roca Foods in Marietta, Ga.

Polls show that Perotnistas are disenchanted enough with Washington to swing to either party. According to the Times Mirror Center for The People and The Press, Perotnistas tend to favor the new Congress' policies (49%-35%) and are happy that the GOP seized control (61%-24%). But they remain dissatisfied with the country's direction (73%-26%), and only 35% say the GOP "governs in an honest and ethical way."

So, as Republicans prepare to endure the scorching Dallas sun, they have reason to sweat. Their leaders pushed the North American Free Trade Agreement and the General Agreement on Tariffs & Trade—pacts virulently opposed by Perot. And while UWSA members applaud GOP deficit-slashing, Perot dismisses the party's tax cuts as "candy" to buy votes. They blast Republicans for failing to deliver term limits and a balanced-budget amendment. They also complain that GOP leaders show little interest in closing the "revolving door" that lets former government officials work as foreign lobbyists. "We've given the Republicans a chance, and neither party is interested in reform," says Patricia Benjamin, a UWSA volunteer in a New Jersey campaign-reform crusade.

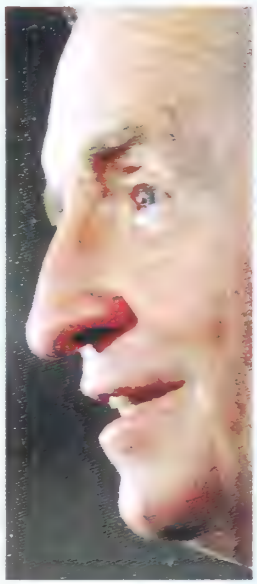
"HE'LL MOVE IN." Nearly three-fourths of Perot backers surveyed by Times Mirror favor a new party, but UWSA activists concede they can't create an effective third force by '96. Perot has repeatedly denied harboring further White House ambitions, and most backers believe him. "I rather doubt he's going to run. It hurt him too much the last time," says Donald W. Layton, owner of Am-Vel Inc., a textile company in Greenville, S.C. and a UWSA activist. But nervous Republicans are skeptical. "Perot wants to stay in the limelight," says a Texas GOP operative. "If an opening presents itself, he'll move in."

Republican strategists are holding their breath. "Ross Perot is like a tornado," warns Luntz. "And it's impossible to predict either the path of a tornado or Ross Perot's political intentions." By kissing Perot's political ring early and often, Republicans hope that, when the wily tycoon chooses his course for '96, they'll avoid the storm.

By Richard S. Dunham in Washington

TOP PEROT PRIORITIES

And why Republicans should be sweating



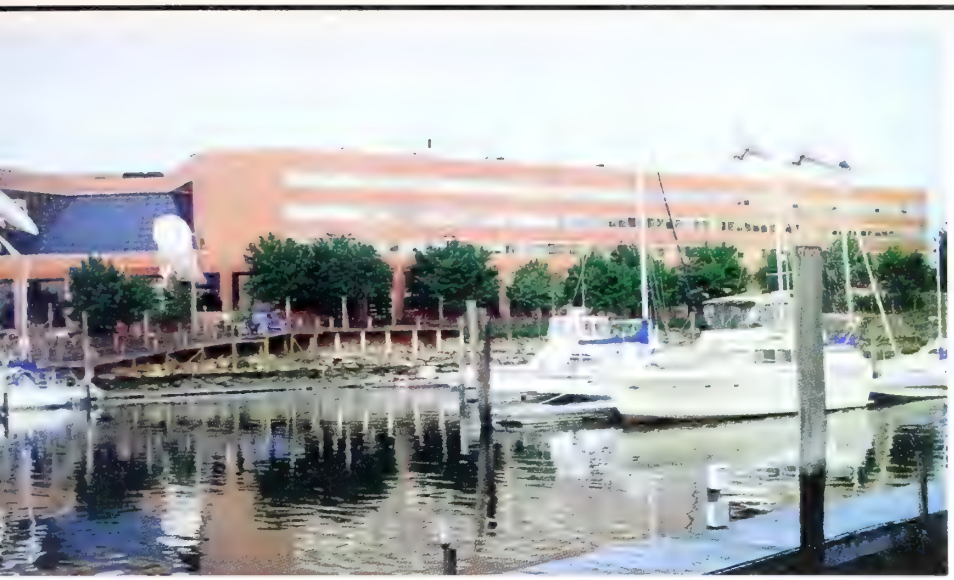
POLITICAL REFORM United We Stand leaders are furious at delays in campaign-finance reform. They're vexed at House Speaker Newt Gingrich's flip-flop: He no longer backs ending PACs.

ELIMINATING THE DEFICIT Still peeved at the defeat of the Balanced Budget Amendment, Perotnistas bristle at delays in line-item-veto legislation. But they praise the GOP for holding down spending.

TRADE POLICY Perot supporters are unhappy about NAFTA, GATT, and the peso rescue.

IMMIGRATION Some California Perotnistas joined Republican leaders in pushing Prop. 187, denying benefits to immigrants. But they are cool on GOP attempts to reduce penalties on employers who hire illegals.

TERM LIMITS Activists wonder if the GOP can deliver fundamental change, following the House defeat of congressional term limits. The saving grace: Most Republicans back this initiative, while most Democrats dissent.



MAIZE'S MAZE: *One share of stock gave Ziegler control*

MILY FEUDS

BITTERSWEET HARVEST OR AMERICAN MAIZE

sale helps investors–but it helps ex-chairman Ziegler more

William Ziegler III, longtime chairman and chief executive of American Maize-Products Co., has suffered many indignities in recent years. 1993, the 67-year-old had to hand r the CEO reins to a younger execu- who promptly squeezed sharply ner profits from the laggard corn- ducts and tobacco company. Next to vere Ziegler's perks: The three com- y planes were axed, as were the jobs his children, including the one whose k included racing a Maize-sponsored boat. The family of Helen Ziegler nkraus, Ziegler's sister and a major reholder, sued, arguing that Ziegler run the company improperly. Final- on June 28, Ziegler's largely hand- ted board unceremoniously stripped of his chairman's title.

But it looks as though Ziegler, better wn as captain of his yacht than as a tain of industry, will have the last gh. On July 26, he and other directors eed to sell Maize, based in Stamford, n., to French agricultural giant Eri- ia Béghin-Say for $430 million. The to the deal: Eridania's promise to Ziegler 88% of Maize's Swisher to- co unit for $165 million—substantial- ess, say some familiar with the com- y, than it is worth—and to loan him million to finance the transaction.

t's a sweet deal—for Ziegler. An- er bidder, Pexco Holdings Inc., made ast-ditch offer of $225 million for sher on July 24. Pexco, which owns 4.5% of Maize's equity, wants to combine Swisher with its existing tobacco holdings. "Ziegler has blackmailed this board into preferential treatment for himself," Pexco CEO Leonard D. Pickett said after the board vote. "This board shortchanged the interests of all the other shareholders." Maize directors say Pexco's offer was untenable given Ziegler's opposition. Says an Eridania spokesman: "Those who want to criticize can say what they want." Ziegler and Maize execs won't comment at all.

TOO LATE. The mess arises from a single share of stock. In 1973, Ziegler and Steinkraus divvied up an odd number of shares, bequeathed by their parents, of the small stock class that controls Maize's board. Ziegler took the odd share, paying his sister its $436.87 book value—and quietly took control of the company. His sister discovered the share's importance years later and has sued unsuccessfully to have the shares redistributed.

Since that transaction, Ziegler has pretty much done what he wanted, irritating shareholders who, until early this year, were stuck with a stubbornly flat stock (chart). For months, he has been blocking efforts by Eridania, Pexco, and CPC International Inc. to acquire all or part of Maize. When Maize's board revolted and voted to accept an Eridania offer in February, Ziegler sued directors for trying to issue new shares that would have diluted his control. "It's frustrating," says A. Alex Porter, whose Porter Felleman Inc. has been a major shareholder since 1989. "Ziegler owns [few] of the shares, but he has prohibited shareholders from receiving anything like fair value."

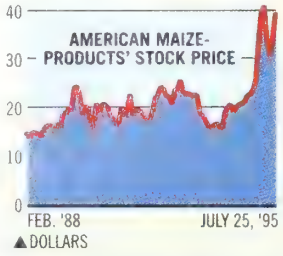
Indeed, most shareholders—left with a more widely traded class of shares that elects only a minority of directors—have been powerless to force Ziegler's hand. Rival Archer Daniels Midland Co., which owns 28% of these shares, unsuccessfully tendered its stock in support of the previous Eridania bid. ADM made an unsuccessful informal offer to buy Maize in 1992. ADM never renewed the offer, and it says the shares are held as an investment.

Maize's improved performance of late makes it an attractive takeover candidate, notes Prudential Securities Inc. analyst John M. McMillin. Demand for its corn sweetener could explode if European markets allow the product to be used in soft drinks, as it is in the U.S. And Swisher, the largest U.S. cigar maker, reported operating profits up 73% in 1994, to $24 million. All told, Maize had 1994 revenue of $604 million, up 12%, and operating profits of $56.2 million, up 261%.

But Ziegler, armed with his extra share of stock, has rejected most of the bids that could have reaped Maize's shareholders a greater return. CPC offered $500 million for the corn business in February, and Pexco's Pickett argues that the whole company, net of debt, is worth as much as $616 million. Maize directors, whom investors credit with trying to do their best in an impossible situation, sound eager to put the ordeal behind them. "Despite its inability to put together a doable deal," says director C. Alan MacDonald, the board "tried to act responsibly through the whole thing." Ultimately, though, the only doable deal for American Maize's long-suffering shareholders was the one that makes Ziegler a very rich man.

By Elizabeth Lesly in New York, with Mia Trinephi in Paris

OUT OF THE MIRE



DATA BLOOMBERG FINANCIAL MARKETS

PHOTOGRAPH BY JOHN S. ABBOTT; CHART BY RAY VILLAFRW

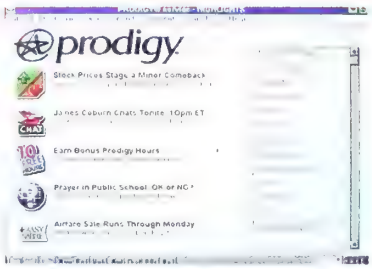
TECHNOLOGY

CAN PRODIGY KEEP PACE?

It looks increasingly vulnerable for a shakeout

It's the electronic equivalent of luring moviegoers to theaters with silent films: While other online services are rushing out multimedia upgrades, Prodigy Services Co., the joint venture of Sears, Roebuck & Co. and IBM Corp., still employs 10-year-old graphics. And the audience clearly wants talkies: Prodigy says it is making money for the first time, but the service has dropped to No. 3 in the market, behind America Online Inc. (which carries BUSINESS WEEK) and CompuServe Inc. With Microsoft Corp. expected to enter the online fray come September, "Prodigy is going to slide out of the top three pretty quickly," predicts Gary Arlen, president of market researcher Arlen Communications Inc.

To help shore up its position, Prodigy has been working feverishly on all-new software to upgrade its service. On July 28, the company plans to unveil a new interface that will give the online service a "look totally different from before," says Edward Bennett, Prodigy's president. The software also improves Prodigy's performance: Gone, for example, is the six-page limit on E-mail messages and the impersonal account numbers that identify members online.



WHAT'S BEHIND THE SCREEN: *Less than originally promised*

FACELIFT. Impressive? Hardly, considering that the other online services already have such features. What's more, Prodigy months ago was previewing a much more powerful interface dubbed "P2." That version, housed on four floppy disks, contained heavy-duty features such as a built-in spreadsheet to automatically chart downloaded stock prices. The previewed version also had the snazzy look and feel of the forthcoming Microsoft Network.

Bennett says that the roll-out of this current interface—called "P1.7" by Prodigy and "P2-Lite" by industry insiders—is just an interim step. "What we wanted to do is get this product out to market and show people what we're doing and what it looks like," says Bennett. Some P2 features, he says, could be added within the next six months. In the meantime, Prodigy will continue to upgrade its links to the Internet's World Wide Web.

Detractors say such moves are too little, too late. Some analysts question whether one or both managing partners will abandon Prodigy, having sunk an estimated $1 billion into an operation that is barely profitable.

Sears and IBM both deny they're considering an exit. But unless Prodigy produces better software quickly, and brings in a lot more paying customers, the partners will have little to show for their patience.

By Paul M. Eng in New York

COMMENTARY

By Edward C. Baig

TINSELTOWN TURNS UP THE TECHNO-TERROR

"Our whole world is sitting there on computer," cries Angela Bennett. "Your DMV records. Your Social Security. Your credit cards . . . there's this little electronic shadow on each of us . . . begging for somebody to screw with."

It is halfway through *The Net*, Columbia Pictures' formulaic techno-thriller, and Bennett is hyperventilating. The systems analyst, played by Sandra Bullock, is caught up in a scheme in which her identity has been deleted and replaced by someone else's. The premise is worthy of Hitchcock, though this movie lacks his skill and humor.

Still, as Hollywood's first major release to exploit the Internet's growing popularity, *The Net* marks a cultural coming-of-age for the technology. It is marred by only a few factual lapses, and its ominous message about the dark side of computing is by now so familiar that it's not enough to unnerve even the least Net-savvy.

Bennett is the type of gal who orders pizzas over the Internet and cozies up to a virtual fireplace on a computer screen in her apartment. Her troubles begin when a client sends a prototype program that gives Net users access to databases at the Federal Reserve, IRS, Atomic Energy Commission, and other highly sensitive sites. Remarkably, such powerful software is not controlled by Microsoft Corp.—though one of the film's heavies does turn out to be a billionaire software mogul.

THE NET: *Sandra Bullock's Angela Bennett sees her identity disappear*

Take it as cinematic license that the heavy-duty program resides on a single diskette. That said, most of *The Net*'s PC references ring true enough. Some scenes were filmed in San Francisco earlier this year during the Macworld Expo trade show. And Dan Farmer, co-author of the SATAN security program, advised director-producer Irwin Winkler on real security risks.

Ultimately, *The Net* vastly exaggerates technology's dangerous side. The bad guys cause computers to go haywire at Los Angeles International Airport and the New York Stock Exchange. And Bennett, of course, must save the world from hackers run amok. She does this via the Internet, although the filmmakers can't resist abandoning the Information Superhighway for a genuine California car chase. So much for Netscapist fun.

Baig writes about technology for BUSINESS WEEK.

Everyone thinks Unisys is just a computer company.

Everyone's wrong.

EDITED BY KEITH H. HAMMONDS

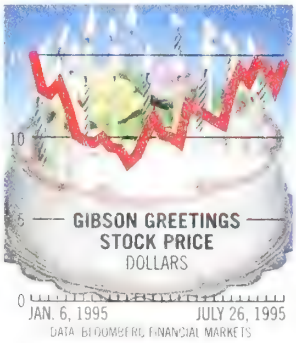
UNIONS OF THE WORLD, UNITE

CALL IT MEGA-LABOR. IN AN effort to offset declining membership, the United Auto Workers, United Steelworkers, and International Association of Machinists plan to form a single, giant industrial union by 2000. The merger would create the country's largest labor union, with 1.7 million members and a $1.2 billion strike fund. The executive boards of the three unions have agreed to start merging departments and functions during the next five years, and members will vote to approve the move at conventions in 2000. Union officials say a merger would bring significant cost savings by axing overlapping departments, allowing them to devote more money and resources to membership drives.

CLOSING BELL

GET WELL SOON

No. 3 U. S. greeting-card maker Gibson Greetings has seen major retail customers go bankrupt, suffered a derivatives fiasco, and uncovered inventory overstatements at its gift-wrap unit. Its stock had recovered lately on "some belief the worst was over," says one analyst. But on July 24, Gibson spurned suitor American Greetings, citing the prospect of "overwhelming antitrust problems." The company says it's looking for other offers.



GANNETT'S GIGABUCK DEAL

SINCE TAKING THE HELM OF Gannett in 1989, Chief Executive Officer John Curley has chafed at the perception that he was the cautious keeper of a media combine built by his flamboyant predecessor, Al Neuharth. Nothing like a megadeal to shake up old perceptions: On July 24, Gannett announced its largest acquisition ever, the $2.3 billion purchase of Multimedia. Curley's strategy seems clear: Bigger is better. The transaction expands Gannett's stable of small but profitable newspapers and television stations and gives it a foothold in TV syndication and cable, reducing Gannett's dependence on newspapers to 66% of revenues from 82%. Says Smith Barney analyst John Reidy: "It's a very good deal."

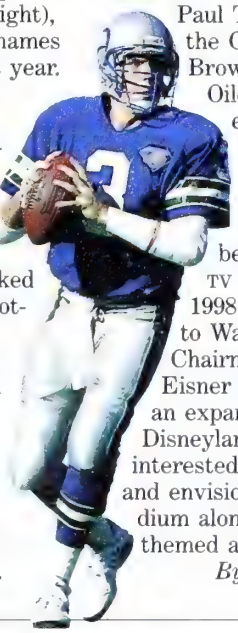
VIACOM CUTS THE CABLE

AFTER ONE FALSE START AND months of talks, Viacom said July 25 it would spin off its cable systems as well as $1.7 billion in debt. Giant Telecommunications Inc. will gain control of the systems—which have 1.4 million subscribers—by investing $350 million in the unit and taking over the debt. Viacom had tried to sell its systems to entrepreneur Frank Washington and TCI, a deal that was undone when Congress quashed the minority tax break it hinged on. The new deal, combined with Viacom's strong second-quarter profits, cheered investors. And better relations between Viacom and TCI might rekindle merger talks between Viacom's Showtime and TCI's Encore movie channels.

HEADLINER: SEATTLE SEAHAWKS

GOING LONG?

They aren't exactly Hollywood material: Seattle's Seahawks, led by quarterback Rick Mirer (right), are a bunch of no-names who went 6-10 last year. But they are a pro football team—something Los Angeles, which lost the Rams and Raiders, craves.



That's why Michael Ovitz has talked to the National Football League about bringing the Seahawks to L. A. and building them a $200 million stadium. The Hawks may bolt Seattle's Kingdome if $150 million in improvements aren't made.

Ovitz denies any deal is near. If the Seahawks don't move, NFL Commissioner Paul Tagliabue says the Cleveland Browns or Houston Oilers may consider L. A. Tagliabue, who wants to restore football to Southern California before the NFL's TV deal expires in 1998, also has talked to Walt Disney Chairman Michael Eisner about owning an expansion team near Disneyland. Eisner is interested, say associates, and envisions his own stadium alongside a football-themed attraction.

By Ronald Grover

TOWARD A FRIENDLIER SEC

THE GOP CONGRESS HAS FIRED another salvo in its drive to streamline securities laws. Jack Fields (R-Tex.), chairman of the House Commerce subcommittee on telecom and finance, planned on July 27 to introduce a bill to reduce corporate regulatory burdens. The bill would create a national securities regulation system that eliminates duplicate filings required under state laws. It also would privatize the Securities & Exchange Commission's computerized filing system and force it to consider compliance costs of future regulations.

SERIOUS MONEY FOR YAHOO

INEVITABLY, THE INTERNET'S bravely altruistic front has succumbed to the reality of commerce. One of the top sites on the World Wide Web has been a free directory called Yahoo, set up by a couple of Stanford University graduate students. After venture capitalists helped them incorporate, the question was how they'd milk some payback from their labor of love. Answer: It still will be free to users, but in late July, Yahoo announced it had deals with a handful of heavy-hitter advertisers, including MasterCard and MCI, which will pay $20,000 a month for exposure on Yahoo's pages.

ET CETERA . . .

- Sprint will spin off its cellular business in a transaction worth up to $4 billion.
- Slot-machine maker Alliance Gaming will bid $55 million for Bally Gaming.
- Glaxo Wellcome will restructure its U. S. operations, cutting 1,000 jobs.
- *Vive Mickey!* For the first time ever, Disneyland Paris recorded a quarterly profit.

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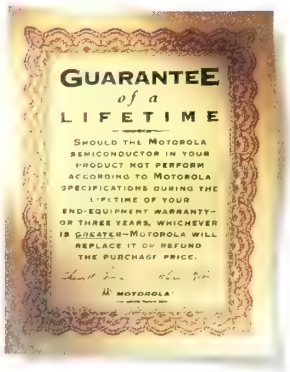

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TED BY OWEN ULLMANN

ISNEROS IS SHRINKING HUD O SAVE IT

ot so long ago, the Housing & Urban Development Dept. was a sitting duck. A bloated bureaucracy noted for crime-ridden housing and sweetheart deals with contors, HUD was a prime target for congressional Republi- s out to kill an agency. Even White House budget hawks ted to put HUD on the chopping block to spiff up Presi- t Clinton's "New Democrat" credentials.

o how's HUD doing these days? Better than you might ex- . Thanks in part to GOP defenders who like using HUD as ggy bank to dispense money back home, the drive to kill agency has stalled. But credit also s to nimble HUD Secretary Henry G. neros, who in December caught foes guard by proposing a radical over- l that went beyond what even most ublicans want. Had it not been for neros' preemptive strike, "we'd be ng shots at a target without a plan redemption," concedes Representa- Sam Brownback (R-Kan.), a leader of abolish-HUD forces.

AXMAN: *Outflanking the GOP with cuts*

ICAL PLAN. Cisneros' plan borrows vily from conservative doctrine. He ld cut HUD's workforce of 11,400 by a d over five years and roll 60 HUD programs into three k grants totaling about $12 billion. That would give state local governments more spending flexibility. And if enact- his reforms would give all housing subsidies directly to -income tenants in the form of vouchers. Currently, most stance flows to public authorities or private owners, but chers would give tenants more housing choices and spur petition among project developers.

Vhile GOP reformers like the block grant approach, the cal voucher proposal is unlikely to survive on the Hill. It s strong resistance from many of the nation's 3,400 pub- housing authorities, which are raising fears that an all- cher system would be costly and trigger housing project failures as residents move elsewhere. "That proposal is DOA," insists Senator Christopher S. Bond (R-Mo.), who chairs the HUD appropriations subcommittee. Even so, Congress may let Cisneros expand the use of vouchers on a limited basis.

Although many Republicans are no fans of the agency, they argue that the government shouldn't kill HUD and, in effect, walk away from the $90 billion it has invested in public housing. Moreover, the "pork" potential is alluring. "When you get in power, you come to favor programs where you distribute the largesse," notes former HUD Secretary Jack F. Kemp.

Nowhere is the bounty greater than in New York, where most lawmakers are—no surprise—staunch HUD supporters. The state received $2 billion from the agency last year. On July 17, Senate Banking Committee Chairman Alfonse M. D'Amato (R-N. Y.), whose panel oversees HUD, and Senator Daniel P. Moynihan (D-N. Y.) announced a deal to use $230 million in HUD funds to rehabilitate New York public housing. HUD officials say D'Amato has privately vowed to fight to save the agency.

Even so, HUD won't emerge unscathed. While Cisneros proposed freezing his budget at $26 billion, House Republicans want to slash the agency's 1996 spending to $19.1 billion. And there's still a question about whether the HUD chief will be around to close a deal—he remains the subject of an investigation into whether he lied to the FBI about payments to his former mistress. But for now, his reform bid has won him a seat at the negotiating table with the GOP.

"We are as serious about reforming this place as the Republican leadership," says Cisneros. And certainly, substantive free-market reform is long overdue. But the players will have to move beyond clever political moves—and a taste for pork—to make that happen.

By Amy Barrett

CAPITAL WRAPUP

NOTHER CHINA CRACK?

Sour U. S.-Chinese relations could on worsen at a cost of hundreds of illions of dollars in contracts for . S. satellite makers. The State ept. may be forced by law to impose ban on satellite sales to China if it nfirms evidence that Beijing ipped missile guidance systems to an in violation of a 1994 pledge to lt such sales. A chance to avert nctions comes on Aug. 1, when Chi- ese Foreign Minister Qian Qichen eets with Secretary of State Warren M. Christopher in Brunei. The U. S. hopes Qian will give assurances that the sale was for a low-tech missile not covered by the pledge.

LIBERALISM IS GETTING OLD

▶ Fund-raising for liberal causes may really be dying out. A survey by the Mellman Group and A. B. Data Group says the average age of direct-mail donors to liberal groups is 65, and actuarially, 40% of them will be dead in 10 years. The poll's message for environmental, pro-choice, and gun-control lobbies: Target younger givers.

THE FED: SHREWD INVESTING

▶ The Federal Reserve has found a new way to cut the deficit: investing in foreign currencies. The Senate Budget Committee estimates the fiscal 1995 deficit at $165 billion, about $10 billion less than previously forecast. One reason for the drop: The Fed enjoyed a $3.3 billion windfall as the plunging dollar boosted its $20 billion portfolio of foreign currencies. Last winter, the bean counters figured the Fed would lose money on foreign holdings.

JAPAN

THE DASHED DREAMS OF GENERATION X

For Japan's young people, doors just aren't opening

Kiwako Mibe has been looking for work for months. The 20-year-old is among the top students at one of Tokyo's better two-year colleges, a school that a few years ago boasted a 98% employment rate for its graduates. That rate has dropped to 60%. Mibe, who graduates in March, hasn't gotten any offers yet and says she worries about the future "all the time." Of nine students in her advanced English class, only three have jobs so far.

Japan's Generation X is waking from dreams of prosperity to find their quality education no longer automatically opens doors to career employment. With Japan's economy stuck in low gear, many companies must cut payrolls and improve productivity. But with no company willing to suffer the political fallout from breaking the social contract against mass layoffs, it's easier to stop hiring. The result: More and more youngsters are staying in school longer, going to work for foreigners, or settling for part-time jobs, often in service industries.

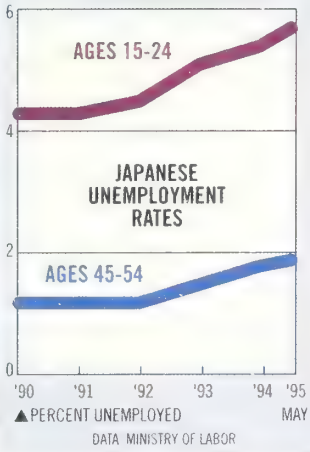
The outlook is grim. The official unemployment rate among 15- to 24-year-olds is 5.7%, nearly twice the national average (chart). But informal studies suggest joblessness for recent grads is closer to 20%, says Dick Beason, an economist at James Capel Pacific Ltd. in Tokyo. With two jobs for every three applicants, it's the ice age of recruitment. In June, 1,500 students applied for 40 spots selling sandwiches on the bullet train's Tokyo-Osaka run. "Young people have a dismal perception of the future," says labor expert Haruo Shimada, a professor at Keio University. "They wonder if they can ever have as nice a job as their dads did."

BROKEN BACKBONE. With business slow and middle-management ranks bloated, most companies have slashed campus recruiting. In 1991, Nissan Motor Co. took on 3,626 freshman employees. Last year, it hired just 45. New hires at Sony Corp. are down 80% from the peak in 1992. Overall, new-graduate hires fell 33% in 1994 and are down 22% in 1995. "It's a suicidal course of action because the young workers who will be the backbone of the workforce in 20 years are the ones you don't want to shut out," says Chris Calderwood, senior economist at Barclays de Zoete Wedd in Tokyo.

Granted, this lost generation isn't starving. With no social stigma attached to living off parents, many young people go home again and just work part-time, saving money for travel or leisure. But for others, high hopes are evaporating. Rika Kawagoe came to Tokyo expecting to work in the fashion industry. After graduation from a design college and a fruitless search for a full-time job, she ended up a part-time clerk in a Tokyo bread shop. Last year, the 23-year-old gave up and returned north to her home in Aomori. "I'll just live the rest of my life here," she sighs, and repeats the national mantra: "It can't be helped."

Meanwhile, the once tightly woven social fabric is getting a little threadbare. Recently, a thin, nervous 20-year-old appeared on a TV game show called *Devil's Whisper*, palpably desperate for money. Despite two part-time jobs, he said he barely got enough to eat and

CAMPUS CRUNCH: *New-graduate hires have fallen sharply since 1993*



OPTING OUT: *Will unemployment spark service-sector job creation?*

dn't pay his rent. He was about to victed. He couldn't go home be- e as part of his parents' divorce ement, he was not allowed to be a en to them. He won $10,000 and t, saved from homelessness—for

lvation Army surveys show the entage of homeless in their 20s rose ply in the past year. With no safety those who slip through the cracks "it's a one-way street, and there's rning back," says John Nestor, who dinates a Franciscan group that s with the homeless.

ven those with "real" jobs are fac- rewritten contracts. Masataka Nag- joined Nissan's international busi- department in 1991. Now one of white-collar Nissan employees draft- nto front-line sales, he was demoted west Tokyo dealership a year ago. arrangements, in which both divi- s contribute to the employee's sala- re a growing part of so-called life- employment. While the 26-year-old learned to enjoy sales, he hopes to back to headquarters in Ginza when 25-month dealership contract is up. through transfers to affiliates and retirements, the company is ex- ed to slash payrolls by an addition- 000 to 7,000 by 1998, from the pre- total of 49,000.

LOST ILLUSIONS Informal studies suggest that unemployment among youth is at 20%. With three applicants for every two jobs, "young people have a dismal perception of the future"

Many young people see job hunting as a humiliating process. Recently, at a government-ordered recruiting fair, some women were told they're too ugly to be hired and to stay at home to help their parents. Interviewers pose obscure questions "just to cut us out," charges Emiko Seki, a Tokyo student. At one jobs seminar, students were told anyone who wanted might take off their coats, then everyone who did so was told to leave. "It's a hell of a way to treat people," says Andrew Shipley, economist at Lehman Brothers Japan Inc.

Japan's rigid career path may soon be a road less taken. Top graduates can still find jobs at leading companies, but other highly qualified grads are opting for graduate degrees, overseas study, or even foreign employers rather than settle for lesser companies. Long viewed as risky employers, foreign companies are now attracting more qualified applicants as Japan's labor guarantees weaken. Seki is joining Hewlett-Packard Co. because it offers better opportunities for women, such as working after marriage, than do Japanese companies.

That kind of flexibility appeals to a new generation of Japanese workers, and Japanese companies are slowly adapting. Merit-based pay is becoming more common, an idea most popular with those under 30, who rightly perceive it as their only hope for advancement from under a crushing load of older workers. Companies are looking for skills and abilities rather than name-brand diplomas. Changing jobs mid-career is not so rare. While there's more risk, there's also more individual freedom. Capel's Beason says those "structural changes are dovetailing with people's preferences about jobs."

MORE PUNKS? Even that's not enough for some young people. Take Shogo Kitazawa, who has been a dishwasher and a ditch-digger. Now, the orange-haired 20-year-old, who wants to be a drummer, works from 10 a.m. to 8 p.m. six days a week, luring passersby into a rock 'n' roll accessories shop. "It's really hard to find work, but I have no desire to work for a big company—too boring," he says. "I have dreams."

Such opting out may help Japan in its sectoral shift. "That adventurous spirit is good for the future of Japan," says Hidehiko Sekizawa, executive director of the Hakuhodo Institute for Life & Living. "Some of these students will become entrepreneurs—maybe we'll even have more punk rock stars. It's tough, but they'll find their path."

Pundits with jobs proclaim these changes are necessary. "Higher unemployment is the price of flexibility in the labor market," says Calderwood. Many see the deposed as sparking the service-sector job creation the nation needs. "Ten years from now, we'll be thankful that this recession was so hard and deep," Beason says. That will likely be true for the winners, but it's going to be a rough ride for those who get written out of the social contract.

By Edith Hill Updike in Tokyo

DIGITAL DARING: *Zenith's HDTV is one of the hottest high-tech properties*

SOUTH KOREA

WILL LUCKY GOLDSTAR REACH ITS PEAK WITH ZENITH?

Buying the U.S. electronics giant is helping LG leapfrog rivals

In the old days, South Korea's Lucky Goldstar group was big but decidedly sleepy. Dominated by members of the founding family, the group lagged behind rival Samsung in high-tech fields. It was slow-footed abroad, too, failing to make big gains in the U.S. television market, for example. "I used to wish I could wave a magic wand to lift our U.S. market share," recalls Executive Vice-President Kim Young-Jun.

Traces of the old Goldstar are hard to find these days. The family has taken a backseat as professional managers have moved in, including several with U.S. experience. The name has been changed to a zippier LG. And after years of a cautious romance with Zenith Electronics Corp., the group's LG Electronics jumped at the chance to buy majority control for $350 million on July 17. The bold move catapulted the company ahead of Samsung in high-definition television (HDTV) and multimedia, while outflanking a major Asian suitor at the same time. "There's no doubt that the multimedia battle will be staged in America," says LG Electronics President John Koo, who is fluent in English.

Zenith, which hasn't made money since 1988 and had been looking for a cash infusion, says it was contacted in April by an unspecified Asian consumer-electronics company to discuss a possible acquisition. But that company did not make a sufficiently rich offer, and the talks broke off, at least temporarily. Korean sources identify the company as Matsushita Electric Industrial Co., which was flush with dollars after the sale of MCA. Zenith declined to identify the potential buyer, and Matsushita denies it was bidding for Zenith.

Whoever the mystery bidder was, its possibly richer bid spurred LG into action. Zenith CEO Albin F. Moschner called Koo on May 16 to inform him about the talks. That revved up LG Electronics executives, particularly Chairman Lee Hun-Jo, a 27-year manager who was promoted to the top position earlier this year.

KOO SEES A MULTIMEDIA WAR STAGED IN THE U.S.

The real gems at Zenith, Lee believed, were the company's digital HDTV and multimedia technologies, among the world's best. Overall, the Koreans reckoned that personal computers and cable television will ultimately merge in the form of set-top boxes, which will provide multimedia products to consumers. "LG had been eyeing Zenith for a long time, and it could have been devastating for the company if Zenith was to be acquired by any other company," says an LG source.

That's why, another senior executive says, "it took only a few minutes for us to agree that we should act quickly and decisively." Within hours, the negotiating team, consisting of General Manager Teddy Hwang and another executive, was on a plane bound for Chicago. They met Moschner in a hotel near his home on May 20, a Saturday. "Al Moschner gave us a great favor canceling his plan to play baseball with his kids," recalled Hwang. By June 27, a written offer was submitted to Zenith, and the deal was closed on July 17, unprecedented speed for a takeover by a Korean company.

OUTFLANKING SAMSUNG. LG Electronics, which is Korea's largest consumer-electronics manufacturer, with 1994 sales of $6.4 billion, will provide its production technology to Zenith, while the American company will bring its HDTV and multimedia technology to the table. "We see HDTV as a global thing," says Koo. "What happens in the U.S. has a lot of implications for the rest of of the world."

The deal is particularly sweet for LG because it steals a march on Samsung Electronics. Although a huge power in dynamic random-access memory (DRAM) chips and liquid-crystal displays, Samsung hasn't yet been able to obtain the same sorts of HDTV technologies. It does have a 40% stake in personal computer maker AST Research Inc., based in Irvine, Calif., but that isn't as technologically hot as Zenith. "By making this purchase, LG has definitely moved ahead and is closer to being a major player in the set-top-box market," says David Andrews, chief executive officer of Interlingua in Redondo Beach, Calif.

Together the Korean companies may have taken a lead over Japanese rivals, preoccupied with the home market and their analog HDTV technology. "I really believe that the Koreans are potentially setting themselves up to take control of the set-top-box market," says Andrews. For top LG executives, it's suddenly a dramatically different company from the one they inherited.

By Laxmi Nakarmi in Seoul, with Richard A. Melcher in Chicago and Edith Updike in Tokyo

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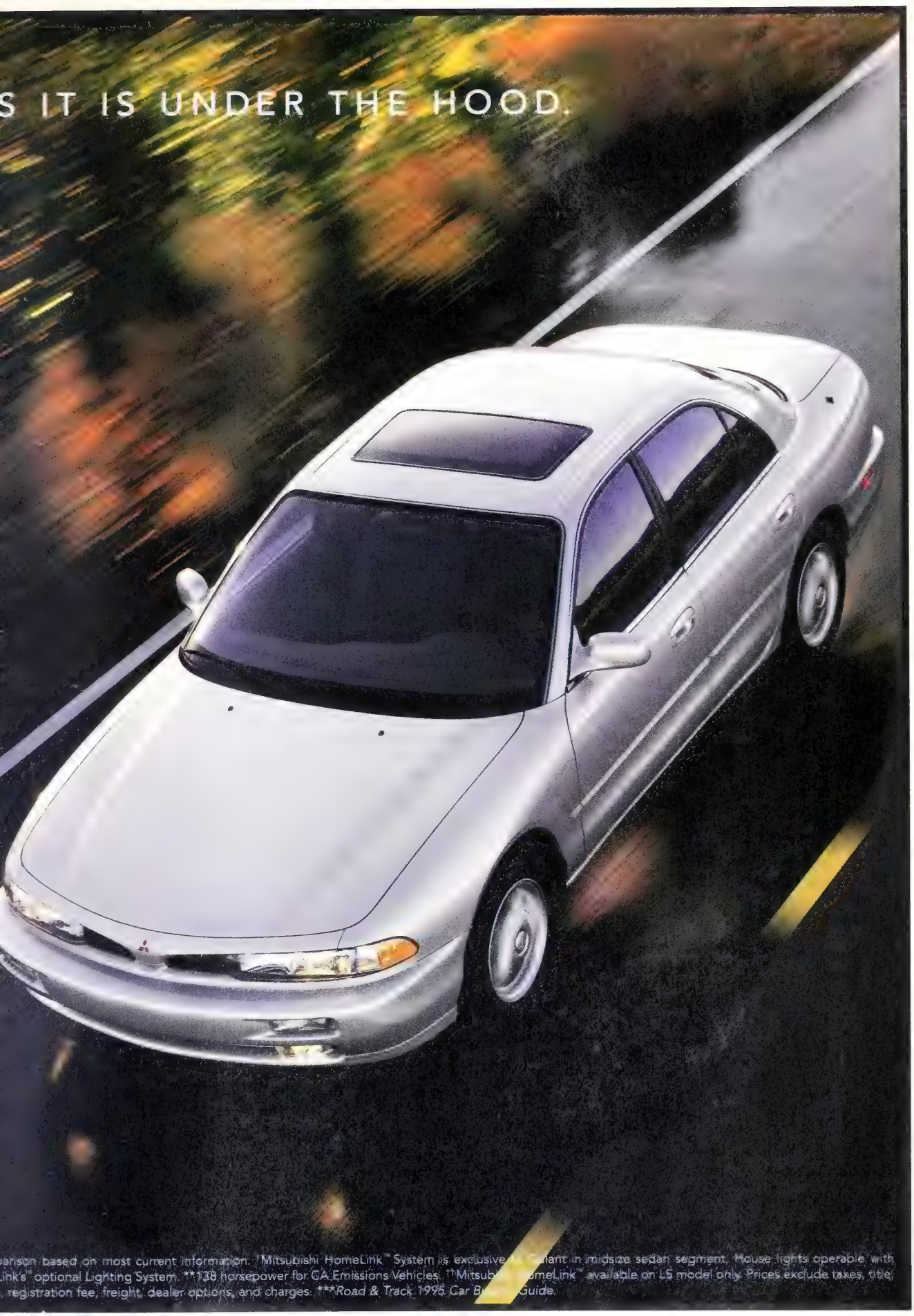

parison based on most current information. †Mitsubishi HomeLink™ System is exclusive [illegible]hant in midsize sedan segment. House lights operable with Link's™ optional Lighting System. **138 horsepower for CA Emissions Vehicles. ††Mitsub[illegible]omeLink™ available on LS model only. Prices exclude taxes, title, registration fee, freight, dealer options, and charges. ***Road & Track 1995 Car B[illegible] Guide.

GERMANY

SOMETHING'S ROTTEN IN ...GERMANY?

Widespread corruption has come to light at Opel

TIP OF THE ICEBERG? *Kickback schemes implicated 244 people at 40 companies*

It can't happen here. That was the reaction in Germany to the scandals that have spread through Italy and France. Sure, Germany has its share of outlaws, such as Jürgen Schneider, the maverick real estate developer who bilked his creditors out of millions. But Germans comforted themselves that no widespread corruption tainted their business establishment.

Until now. This summer, Germans learned that prosecutors suspected dozens of employees at auto maker Adam Opel of extracting kickbacks from suppliers eager for building contracts. The probe has so far implicated 244 people at 40 companies and triggered the sudden resignations of three top Opel executives. No one has been charged, and the executives protest their innocence. Unlike Italy, no top politicians are involved. But the news has forced Germans to admit publicly that corruption is no stranger to their country.

The Opel scandal is hitting just when the whole system is under strain. Ordinary Germans, fed up with higher taxes, are angered by evidence that the corporate elite is lining its own pockets. Germany Inc. is under pressure to open itself up to closer scrutiny, police insider trading more rigorously, and treat minority shareholders better. And prosecutors are ready to pounce on any signs of wrongdoing. "This is a turning point for Germany," says Peter Eigen, head of Transparency International, a Berlin-based nonprofit group devoted to fighting corruption worldwide.

The German press is sniffing around for Opel-type shenanigans at Ford, Volkswagen, and Hoechst, which the companies have denied. Yet many executives wonder what prosecutors will turn up next. They think that Opel, a division of General Motors Corp. headquartered in Russelsheim, may be forcing more stringent U.S. standards of accountability onto German companies, which could result in further revelations of corporate wrongdoing.

After a supplier complained of being squeezed for bribes last year, Opel immediately notified prosecutors and launched its own investigation. When the story leaked, the company quickly gave interviews. Opel also vows to cut off business with any supplier that does not take steps to deal with the problem. "The American style is more puritanical," says management consultant Gertrud Höhler.

Now many Germans are admitting that they have liked their business relationships cozy. If a supplier wanted to remodel a customer's house for a low price or shower a key contact with gifts, no one would make a fuss about it. "There is an inbred nature to the German economy," says David Herman, the American chief of Opel. These practices seem especially widespread in the construction industry, where bidding is keen for building contracts from both the public and private sector. In the state of Hesse, an anticorruption squad has uncovered 1,500 cases of public officials on the take between 1987 and 1995 in Frankfurt alone.

SHORTCUTS. Prosecutor Günter Wittig of Hesse's anticorruption squad estimates cash bribes doled out to clinch a deal add 3% to 5% to the cost of every building contract. Altogether, kickbacks and other schemes add 20% to 30% to projects, costing taxpayers billions of dollars a year. "Corruption is nothing new," Wittig says. "There are more cases because we're looking for them."

Yet many experts also fear that the number is on the rise. As they encounter innumerable shady practices in the new markets of Asia and Eastern Europe, German companies may be more inclined to try something corrupt at home. And sharper competition due to economic sluggishness in Germany makes illicit shortcuts all the more tempting.

Calls for reform are on the rise. Auditors are complaining they have no mandate to look for improper expenditures. States are beginning to blacklist companies accused of bribing public officials. Germans suddenly are embarrassed that their tax code actually allows deductions for bribes.

German corruption still could take years to root out. Yet, says consultant Höhler, "we're no longer so naive." That's the first step toward change.

By Karen Lowry Miller in Russelsheim

How to Stop German Graft

MODIFY THE TAX LAW It now allows a deduction for some bribes

GIVE AUDITORS MORE POWER At present they cannot probe for improper spending

MOVE PEOPLE AROUND Companies should regularly rotate executives out of jobs dealing with outside contractors

DATA BUSINESS WEEK

TED BY STANLEY REED

I HONG KONG, A CEASE-FIRE ETWEEN BRITAIN AND CHINA

here is a silver lining for Hong Kong in the ongoing dispute between the U.S. and China over Taiwan President Lee Teng-hui's recent U.S. visit. While snarling at hington and staging missile tests off Taiwan, Beijing ns to be trying to smooth its relations with Hong Kong its lame duck British overlords. "China only likes to e one big argument at a time," says a senior Hong g government official. "And the U.S. has been identified ublic enemy No. 1."

ritish-Chinese relations had been in deep freeze since Hong Kong's gov- r, Chris Patten, launched his democ- zation drive in 1992. But with the handover fast approaching, China ns to not only want to protect its omatic flanks but also to ease the rs of local residents and internation- vestors, who have made the territo- uch a key business center. The Brit- also have an interest in easing ions—if only to boost the chances dignified exit, which would help en's political career.

PORT CONCORD. As a result, long- ding disputes are finally being re- ed. In mid-June, the two sides came landmark agreement establishing a rt of Final Appeal in Hong Kong. The new court, based British common law, will replace London's Privy Council as territory's supreme court. There is still worry that China d interfere, but business groups think the new panel s Hong Kong a good shot at maintaining judicial indepen- ce. The British and Chinese have also wrapped up their , costly wrangle over funding the new $20 billion Hong g airport.

he most interesting development was a recent secret to China by Hong Kong's Chief Secretary, Anson Chan, an articulate career public servant who is the territory's second-highest ranking official. She met with China's Foreign Minister Qian Qichen and Lu Ping, director of China's Hong Kong and Macao Affairs Office. Senior Chinese officials had previously snubbed her. "I came away really feeling very encouraged about the prospect for more positive cooperation between the two sides," she said after her trip.

When Qian Qichen visits London in the fall there could be progress on the so-called rights of abode and other issues. The worry now is that China might refuse permanent resident status to Hong Kong citizens holding foreign passports. The Chinese have also hinted that they are looking for a face-saving way to go ahead with a new cargo-container terminal in Hong Kong. They had blocked the project after it was awarded to a consortium that included Jardine Matheson, a company Beijing associates with British imperialism.

SECRETARY CHAN: *"Very encouraged"*

This easing of tensions doesn't seem to have boosted the confidence of Hong Kong's own citizens. Property and stock prices are down, and unemployment, though still low at 3.1%, is on the rise. But some economists say things seem worse than they really are. "The fact is the economy is growing at 5½% to 6%," says Ian Perkin, chief economist of the Hong Kong General Chamber of Commerce. He reports that the inflow of expatriates and Hong Kong émigrés is higher than ever.

Hong Kong residents will receive an important clue in 1996 about how much they have to worry when Beijing will disclose its choice as the territory's chief executive once it takes over. Tapping Anson Chan or some other respected local figure would be reassuring. On the other hand, a Beijing puppet could trigger panic.

By Joyce Barnathan in Hong Kong

GLOBAL WRAPUP

ACKBITING AT DAIMLER

Daimler Benz has been shaken by e publication of a vitriolic attack on e strategies and personality of its rmer CEO, Edzard Reuter. But the ident probably gives Reuter's suc- ssor, Jürgen E. Schrempp, a free nd at the German industrial giant. e is now likely to unshackle the mpany even faster from Reuter's stly, and largely failed, diversifica- n policy.

Daimler's board forced the author the attack, former Finance Director Gerhard Liener, to give up a lucrative consulting contract after a German business monthly published extracts of the memo. But it so far has issued no rebuttal of Liener's trashing of Reuter's strategy.

Schrempp must now stanch losses, which could top $2 billion this year—mostly at Daimler Benz Aerospace and Daimler Benz Industrie, formerly AEG, an industrial conglomerate. Both were Reuter-led diversifications. Schrempp will probably continue the breakup of AEG and move thousands of Daimler jobs out of high-cost Germany.

SAYONARA FOR MURAYAMA?

▶ Japan's Socialist Prime Minister Tomiichi Murayama is in trouble following his party's humiliating defeat in upper house elections on July 23. Business leaders are urging Murayama's stronger coalition partner, the Liberal Democratic Party, to dump the premier and install one of its own to sort out Japan's economic problems. The betting is that either Foreign Minister Yohei Kono or MITI chief Ryutaro Hashimoto will grab the coveted premier's spot before yearend.

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Cover Story

POWER TO THE STATES

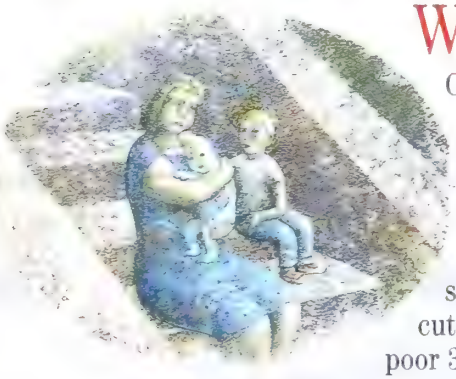
But can they run programs better, on less money, than the feds?

Wisconsin's Republican Governor Tommy G. Thompson is in an ebullient mood, and why shouldn't he be? Wisconsin's economy is whirring—unemployment is under 3.5%—and welfare rolls are dropping. The GOP-controlled legislature, swept into power amid last November's Republican Revolution, easily approved a Thompson budget that cuts property taxes and reforms education and welfare. Soon, he boasts, he'll unveil even more welfare changes aimed at moving people quickly off the dole. "These reforms," he boasts, "will be the most exciting and ambitious in the country."

READING THE FINE PRINT

Leaders of the Republican Revolution are intent on handing the states responsibility for policy areas traditionally administered by Washington.

Welfare



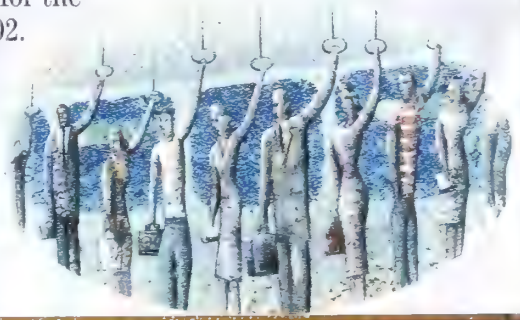
Congressional Republicans may combine Aid to Families with Dependent Children, food stamps, child care, and child nutrition into a single $222 billion block grant to the states. The program would cap spending over a five-year period and cut federal health-care funds for the poor 30%, or $89.5 billion, by 2002.

Medicaid

Congress aims to turn Medica into a $158 billion block grant its allocation would be based either the 1994 or past three y average level of federal fundi The block grant would cut the nual rise in federal health-car spending for the poor to 4% fr 10.4% and save Washington $1 billion by 2002.

Transportation

The Clinton Administration would like to turn over more responsibility for transportation policy. But there's a catch: Clinton proposes sending only $36.9 billion to the states during the next fiscal year, a $2.3 billion decrease.



et, as Congress prepares to cede control over every-
g from welfare to transportation and environmental pol-
o the states, Thompson is convinced that lawmakers in
onsin—or any state capital—can do almost anything bet-
han the pols in Washington. And he's aching to prove it.
re seeing a rebirth of [state power]," says the 53-year-old
npson, "and I'm totally comfortable with the states' abil-
to handle it."

Cocky? Yes. A dreamer? Not at all. Ready or not, "states first" advocates such as Thompson are about to see their wishes granted—in spades. This summer, Congress is rapidly cobbling together legislation that would hand governors responsibility for dozens of major programs, including welfare, Medicaid, and job training, that account for over $200 billion in annual spending.

In small part, Congress is responding to a public grown weary and cynical of Big Government. But more than anything, Washington desperately wants the statehouses to do something it won't—make the politically tough decisions on which social, environmental, and safety programs must be cut to balance the budget. While Congress is willing to give states more responsibility, it also is proposing that they manage it with a lot less money than the feds themselves previously felt necessary. For two of the most politically charged programs, welfare and Medicaid, which provides health and nursing-home care for the poor and disabled, proposed spending would plunge 30%, or nearly $270 billion, from fiscal 1996 to the year 2002.

That's the most radical transfer of power since the New Deal, when Washington began taking over numerous responsibilities previously left to the states. The changes would eviscerate the federal government's role as protector of the poor, leaving that responsibility to the states. And almost overnight, the American system of federally mandated entitlements that has developed since the 1960s to safeguard the poor will disappear. Currently, the GOP-controlled Congress plans to reduce growth in federal funding of social programs, keeping such budget-busters as Medicaid from increasing in lockstep with need or inflation. That would save Washington $182 billion by 2002, its only hope for a balanced budget.

Meanwhile, states would have to make do with what they have, economizing by shifting Medicaid users into managed-care programs, reducing costly oversight of environmental rules, or setting limits on how long people could stay on the welfare roll. "The states will redefine the safety net," says Judith M. Gueron, president of the Manpower Demonstration Research Corp. (MDRC), a New York-based research group. "They haven't had the responsibility in the past."

The philosophy behind this change, dubbed "devolution" by policy wonks and trumpeted by such devotees as House Speaker Newt Gingrich, holds that the states are inherently more efficient than the federal government because they are closer to the people they serve. To be sure, such change will be welcomed by millions of disgruntled voters. And some governors, especially Republicans such as Iowa's Terry E. Branstad, view this tectonic shift as "a golden opportunity" to unleash high-quality reforms that have eluded the bureaucracy-laden feds.

Trouble is, as the feds retreat, the states may be overwhelmed by the sheer scale of expectations and responsibilities. And since few state officials expect federal payments will be adequate to fund all the new responsibilities, governors eventually will likely have to take the knife to other state spending programs such as higher education, roads, and prison-building. "All departments have been notified that past generosity won't continue," warns Minnesota's Republican Governor Arne Carlson.

The risk of this power shift is heightened because of the

Job Training

The Senate is considering lumping 91 different federally funded training programs into a single $7 billion block grant to the states. But the grant would cut the funds available for job training by 15% in 1998.

Environment

Republicans are pushing to end federal oversight of state implementation of the Clean Air Act. And a House committee has proposed slashing the Environmental Protection Agency's $7.3 billion budget by 34%. One possible result: A nationwide patchwork of state-based environmental regulation.

brief time interval before the transfer starts—as early as next fall. Early experiments in state reforms show some encouraging signs—for instance, Minnesota's program to provide medical coverage for the working poor to keep them off the dole.

Yet most states' programs are no more than pilots, virtually untested. And those who now look to states for the answers to Washington's problems should remember that many local bodies can be as bureaucratic and inefficient as the feds—and often far more corrupt. Few states can point with pride to their stewardship over public education, long under their purview. Twenty-one states are under court orders to reform their child-welfare systems. And when Tennessee shifted its Medicaid population to managed care in 1993, the state rushed its program out in five months. The result: A computer system inadequate for processing claims fell months behind in reimbursements to doctors and hospitals, sparking 50,000 calls from confused recipients.

Fortunately, most state balance sheets are at their healthiest in more than a decade, thanks to a rising economy and fiscal prudence. In contrast to the $203 billion federal deficit last year, the states' collective budget surplus totaled $17.3 billion. Yet surging costs to care for the growing ranks of the elderly, disabled, and criminal populations could bring the same havoc to state finances that they have to the federal budge

Under Republican Medicaid proposals, for instance, th federal government would send $124 billion to the states i the year 2002—30% less than the $178 billion the feds woul plan to spend if they retained control of the program. Esser tially, that's a high-stakes gamble that states will be able t quickly ferret out enough inefficiency, fraud, and waste t make up the difference—a questionable assumption. That why some governors are wary of the new states-rights rhet oric touted by conservatives such as Gingrich. Fears Indiana Democratic Governor Evan Bayh: "Congress simply wants t shift the burden of the deficit to state and local goverr ment."

Power would be shifted to the states through block grants essentially huge bags of cash the states could spend withi broad policy areas. What's more, under current legislatio winding its way through Congress, states would gain fa more power to spend the funds as they—rather than polit cians in Washington—see fit. For example, governors woul be free to use federal transportation funds on whatever roa building projects they'd like, create their own environmenta programs, and distribute job training money in almost an fashion. Red tape should be cut: About 90 job training pr grams, many with differing eligibility standards and sprea across 14 federal departments, would be consolidated. An states could mostly avoid the time-consuming and expensiv

THE TUG OF WAR BETWEEN WASHINGTON AND THE STATE

▲ 1789
Constitution drafted, granting far more federal powers than allowed under the former Articles of Confederation.

1810
The Supreme Court sets precedent that state laws in conflict with the federal Constitution cannot be enforced.

◀ 1819
Supreme Court Chief Justice John Marshall establishes a broad interpretation of federal restrictions on state powers.

▲ 1861–65
The North's victory in the Civil War quashes Southern states' bid to secede from the Union over disagreements on issues such as tariffs and slavery, cementing the supremacy of federal over state power.

1896
Supreme Court in *Plessy vs. Ferguson* adopts the "separate but equal" doctrine, allowing states to legally segregate blacks despite federal protections.

▶ 1935
President Franklin Roosevelt affirms federal oversight of labor relations and Social Security above state regulation.

1954
Supreme Court in *Brown vs. B of Education* rules "separate b equal" schools unconstitution

▲ 1957–63
Over protests from governors s as Alabama's George Wallace, federal troops desegregate sev Southern school systems.

tates worry about paying for welfare with federal block grants: "The feds haven't repealed the business cycle"

ss of begging the federal government for waivers to ex-
nent with new social programs.
at's a dramatic turnabout from the parent-child rela-
nip the states currently have with Washington. Just ask
s Comptroller John Sharp. After filing a request to issue
ronic debit cards to food-stamp recipients in 1991 in an
t to combat fraud, Sharp's bid languished in Washington
nree years before it finally was approved in 1994. "If it
t been for the hoops we were made to jump through, we
have done this in six months," he says.
though the added flexibility is tempting, there's no avoid-
ne huge financial risk. Take Medicaid. Congress based its
et numbers on the assumption that states could ratchet
the rate of Medicaid growth from 10.4% today to 4% by
Since Congress plans to stem Medicaid spending for sev-
ears, states are on their own if they can't cut their rate
owth that much. That's a tall order. "I see a lot of
s cutting their services and costs," says Vladimir Y.
nyk, executive managing director of public finance for
dard & Poor's Ratings Group. "That will be good for credit ratings, but lousy for the people who live there."

States are only now beginning to tote up the costs. Montana, a largely unpopulated state with big road-building and repair needs, could lose perhaps half its annual $150 million federal transportation aid under the complex distribution formulas in some block grant proposals, and it has little means to make up the difference. Minnesota already faces a projected cumulative deficit in 2005 of $2.5 billion before federal cuts, which could cost the state an additional $1.8 billion over the next six years.

NASTY INFIGHTING. Yet states worry most that federal block grants for welfare and Medicaid will be scaled back under current congressional proposals, forcing states to receive the same amount of federal dollars—even if recession adds more people to the rolls. "One of the scary things about block grants is that the feds haven't repealed the business cycle," says Mary Ann Cook, a senior administrator in the Dane County (Wis.) Human Services Dept.

That has helped fuel nasty infighting among state delegations on Capitol Hill over block grant funding formulas. Northern and Midwestern governors fear Southern senators will rig formulas to penalize prosperous states that have already made aggressive efforts to trim welfare and Medicaid spending. Snaps Minnesota's Carlson: "Formulas shouldn't reward sloppy, inefficient states."

Similarly, states with fast-growing ranks of poor and elderly such as New York, Florida, and Texas, worry that formulas based on early 1990s federal spending—one idea floating around Congress—won't cover their needs. Florida, for one, would lose $9 billion in federal Medicaid funds over seven years under congressional plans—even though its population grows annually by 272,000 people and its Medicaid bill by 14%. "That level of inequity will never be acceptable to Florida or to the other growth states," warns Governor Lawton Chiles, who says proposed caps would allow slow-growth states to "make out like bandits." Resolving such formula fights could tie up congressional approval of block grants until the fall.

State power is also set to expand in areas other than social spending. Many in Washington are determined to shift responsibility for environmental standard-setting, too. It's unclear how dramatic the rollback will be, but there's no doubt that the feds will slash grants used by the states to build sewage-treatment and drinking-water plants. This year, the feds will chip in $1.3 billion of the total $5.3 billion states are devoting to environmental spending. Next year, much of the federal contribution may be gone.

Clearly, that will compound the states' other budgetary problems, encouraging privatization of their water and sewage-treatment operations to save money. Environmentalists and industry worry that any power shift to states could result in a dangerous and uneven mix of policies. "For a national company like ours, you have to be watchful that a patchwork of regulations doesn't develop," says Edmund J. Skernolis, director of government affairs at environmental-services giant WMX Technologies Inc. One of Skernolis' fears: pollution havens "where waste might move to the cheapest alternative."

Nonetheless, fans of block grants are confident that, unburdened by federal bureaucracy, governors should be able to offer equal or better services with less money. "I'm looking forward to an era when states really are laboratories of democracy," says New Jersey Governor Christine Todd Whitman. This argument echoes themes raised by the Nixon and

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Congress passes, and
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a rush of federal civil
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rulings override state-
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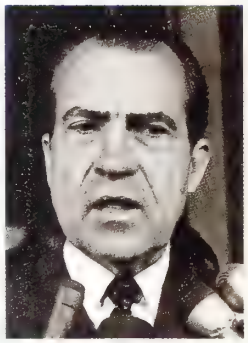


▲ 1972

Richard Nixon's New Federalism revives revenue sharing with the states, but the supposedly "no strings" grants come with extremely complex rules and plenty of restrictions on governors.

94

licans capture both houses of Congress
mbitious promises to reduce entitlements
turn cash and control of many federal
ms to the states.

Reagan Administrations, which used block grants to give states authority over such programs as youth job training and child health care. The current reforms are far broader in scope than their predecessors, though, and the dollars involved much larger. "Past is definitely not prologue in this case," says Richard P. Nathan, director of the Rockefeller Institute of Government at the State University of New York.

Cover Story

Indeed, the Reagan Administration block grants, which became law in 1982 and totaled only $7.3 billion, were puny compared with those on the table today. And past efforts didn't touch the safety net for the poor. Moreover, if Hou Republicans have their way, the states will get control w less oversight and fewer rules than under Reagan's grant

Yet a close look at earlier block grants provides so warning signs for the future. The Job Training Partnersh Act, for instance, distributes $1.6 billion to the states i spending on adult and youth job training. The federal pr gram, administered by state agencies and private indust councils, subsidizes on-the-job training and hires priva training institutes that are paid according to how long parti pants are trained. Critics charge that more than half t program's funding goes for administration. And in 1991, t General Accounting Office rebuked state oversight of j

Wisconsin / Workfare

★

ANOTHER DOSE OF TOMMY THOMPSON'S TOUGH LOVE

Nancy Anne White has been in and out of jobs, off and on welfare, and struggling to manage such necessities as medical bills, child care, and food, ever since the father of her 3-year-old son walked out when she became pregnant. But in early July, prospects brightened for White, a 41-year-old resident of Beloit, Wis. Working through nonprofit Forward Service Corp., which used state money to provide her with everything from job training to clothing for interviews, White found work as a $7.20-an-hour customer service representative for Cablevision of Greater Beloit. Equally important, White will receive up to 20 months of free day care and health care. "I'm overwhelmed, this is so exciting," she says.

WELFARE REFORM AND AN ECONOMIC BOOM GOT WHITE OFF THE DOLE

AMERICA'S MODEL? To Governor Tommy G. Thompson, White is proof that states are up to the task of moving people off welfare and into the workplace. A relentless experimenter, Thompson credits a host of local welfare reforms to an impressive 26% fall in dole numbers since taking office in 1987. With such snappy euphemisms as Learnfare, Children First, and Work Not Welfare, Thompson has built a welfare regime that penalizes childbearing, threatens fathers delinquent in custody payments with jail, and forces able-bodied recipients to stay in school, get a job, or face a sharp cut in benefits.

Now, Thompson aims to push the great welfare debate further. In early August, he plans a tough-minded overhaul of his program. Wisconsin will convert the prime federal grant, Aid to Families with Dependent Children, into a work subsidy in 1997—in effect, forcing able-bodied welfare recipients off the dole within two years. Those who find work will be provided with 12 months of child and health care, and employers are likely to get a subsidy to train and hire welfare recipients. "Only work will pay for those who can work," says J. Jean Rogers, a senior official in the Wisconsin Department of Human Services. "You will get a check as reinforcement for appropriate behavior."

Is Wisconsin a model for other states? Those who have long studied the state's experiments, such as Princeton University's Lawrence M. Mead and Michael L. Wiseman of the University of Wisconsin, say other governors can draw on three lessons: the importance of building a first-rate welfare caseworker force, the willingness to continue experimenting, and the payoff of spending money on benefits such as child and medical care. Yet, big questions remain unanswered. Unproven is how Wisconsin would fare in an economic downturn: At least some of the Wisconsin Miracle is a direct result of a booming state economy, where unemployment is just 3.3%.

RELAPSES. Welfare administrators also worry that Wisconsin hasn't solved one of the trickiest problems: keeping people from returning to the dole. Along the Illinois border in Rock County, where Beloit is located, the state is trying out most of the state's pilot programs—and rolls have dropped 33% since 1987. Yet, 30%-40% of those moving off the rolls return within a year. Why? Usually because they are trapped in low-paying jobs and face a cutoff in child and health benefits they can't afford on their own. For now, Nancy Anne White is thrilled to be back at work. To keep her there, and for Thompson to be able to truly claim welfare success, the state will have to invest more heavily in job training and long-term benefit support.

By Richard A. Melcher in Beloit, Wis.

ing efforts. In one instance cited by the GAO, Illinois a car wash to train new employees—for six months. And 93, Illinois used $2 million in JTPA funds to hire workers ttle summer floods.

'here's no rigorous oversight or accountability," says An- y C. Carnevale, vice-president of the Committee for Ec- nic Development. "It has been one of the biggest slush s around for a long time." Nevertheless, one Senate pro- would roll $7 billion in job training programs into a t to the states, but with more performance standards.

nfortunately, JTPA isn't the only example of weak program agement by states. The Mississippi Human Services . has been dogged by allegations of overspending and outright fraud, and is currently under investigation by tate auditor and the Health & Human Services Dept. Al- y, a state audit has disclosed that existing federal block t money intended for child care for the poor was divert- y state officials to buy items such as $37.50 designer salt- pepper shakers, as well as $40,000 in improvements to a ing the state didn't own.

TLY REFORM. Of course, not all states stumble when they heir hand at reform. Some have devised creative—and essful—ways to shift people from welfare to work in re- years. Among the best is California's Greater Avenues ndependence (GAIN), a state program designed to move ients of Aid to Families with Dependent Children into workforce by giving them job training and job-search GAIN has boosted the incomes of those who participate in hile reducing state AFDC payments, according to the , the nonprofit research group. Over three years, earn- of participants jumped on average 22%, or $1,414 above e of AFDC recipients who didn't enter the program. Par- ants also received an average of $961 less in AFDC pay- s during their three years, a savings to the state.

ut such successes show that unless states intend to move le off welfare by dumping them on the streets, reform is y, at least initially. California spends an average of $4,515 GAIN participant over five years on such things as job ing. In fact, in three of the six counties the MDRC studied, ram costs exceeded budget gains. New Jersey's Whitman sunk $50 million into providing health insurance for the sured and those leaving welfare for work. Even Wiscon- Thompson admits: "It costs more up front to transform system than many expect."

ne bottom line: Don't bet on welfare and Medicaid reform alance the budget. In fact, the Kaiser Commission on the re of Medicaid found that Medicaid managed-care pro- ns typically reduce total costs by only 1% to 2%, be- e elderly and disabled Medicaid enrollees are legally ex- ed—something current congressional proposals may not ge. Although the elderly and disabled make up only of Medicaid's participants, they account for 60% of spend- -largely for nursing-home care.

any governors rightly worry that growing post-devolution pressures will spell an early death for reforms that only are showing signs of working. Take the highly touted gon Health Plan. Since its debut in 1994, it has won dits for expanding coverage to an additional 120,000 peo- hrough a controversial rationing plan in which 606 of 745 sses are covered. The added recipients are mainly work- poor who wouldn't normally qualify for Medicaid but lack private medical insurance.

regon Medicaid Director Hersh Crawford says that there's vay for the state to limit cost increases to 4% by 2002. disabled population is growing 10% annually," says wford. "And we have the fourth-oldest population in the ." Oregon's options: Slash services, reduce payments to iders, and start charging premiums. That's exactly what doing. On Oct. 1, the state will require a family of four to

WISHES GRANTED?

Governors who must manage devolution are mixed about its prospects.

TOMMY THOMPSON R-Wis. A states-righter who rails against Washington's "arrogance of omnipotence," Thompson's welfare reforms are aimed at shifting people into jobs. He'll cut off all direct payments to able-bodied recipients by 1997.

CHRISTINE TODD WHITMAN R-N.J. This tax slasher says social policies must be tailored to an individual state's need, with plenty of control pushed to the local level. But she wants assurance that the feds won't leave states in the lurch during recessions.

ROY ROMER D-Colo. He sees block grants as a huge risk to fast-growing states, which would be saddled with fixed federal funds to pay mounting health-care bills. He prefers retaining federal financial control, while giving states more operating freedom.

JOHN ENGLER R-Mich. This early supporter of block grants says states are better suited to make tough decisions. At home, he has already axed welfare benefits for able-bodied adults without children and eliminated property-tax funding for schools.

PETE WILSON R-Calif. Although the shift to block grants could cost his state $13 billion over five years, Wilson covets the flexibility it would bring. He would cut social spending and shift more funding burden to counties, while abandoning affirmative action.

TOP TO BOTTOM: PHOTOGRAPHS BY A. STEPHENSON WOODFIN—AMP; THUMPSON; DENNIS BRACK—BLACK STAR; (ROMER) BROOKS KRAFT—SYGMA; (WILSON)

pay $26 a month for coverage, and it's paring the number of medical services it covers to 581, a 4% drop.

Florida's pilot Family Transition Program, a welfare-to-work plan that provides AFDC recipients with health and child care, as well as transportation to their jobs, is in a similarly tenuous position. It's a small program, with a budget of just $14.7 million and 2,800 enrollees. But Director Betty Hooper, who thinks it will take three years to see concrete results, fears her program may get axed if Florida is forced to curtail overall spending. The state, she says, "might simply have to take care of people instead of investing in something we'd like to see happe"

Cover Story

That's already occurring. In the recent Texas legislat e session, the state slashed a program designed to keep the e erly out of nursing homes when federal funds weren't newed. And at Miami's 40-year-old Children's Psychiat c Center, Executive Director Robert Nolan already is wrestli with $500,000 in state and federal cuts this year to an ope tion that serves 5,000 kids. As galling as these cuts are, Nolan fears they're only harbingers of a future under blo grants. That's because the legislature, which encouraged N lan to develop on-site centers in as many as 40 schools, n has cut the funding—but left the programs.

What's possible, as this dark scenario spreads nationwi

Florida / Medicaid

★

SUDDENLY, A CLOUD OVER CARE IN THE SUNSHINE STATE

As Florida's largest recipient of Medicaid dollars, Jackson Memorial Hospital in Miami struggled in the late 1980s to serve the medically unwanted. The tax-assisted hospital was delivering more than 17,000 babies annually—mostly to Medicaid patients shunned by private doctors and other hospitals, whose costs weren't covered by rock-bottom reimbursement rates.

But by last year, Jackson Memorial's maternity count had plunged to 10,000, thanks in part to a dramatic revamping of Florida's Medicaid program, which encouraged private managed-care plans to enroll poor and disabled patients covered by Medicaid. The number of prepaid health plans serving program recipients more than doubled, to 29, while the number of enrollees quadrupled, to 417,000, by the end of 1994. Better yet, growth in Florida's Medicaid spending was halved, and the state saved $67 million last year by using managed care.

But don't uncork the champagne just yet. Although Florida's reforms have increased service options for the poor, officials fear the gains could be erased if Medicaid spending caps ardently desired by Congressional Republicans are imposed. Even if finances hold up, Florida provides a warning to those who are convinced that states manage programs better than the feds.

ABUSES APLENTY. The reform started out so well. Governor Lawton Chiles in 1991 aggressively expanded a program to contain costs by enrolling recipients in managed-care programs. The state waived some regulations to encourage prepaid plans to serve Medicaid clients, allowing them up to three years to meet stricter financial and review standards imposed on health maintenance organizations that serve commercial clients. Florida also raised reimbursement rates—but still ranks 44th in spending per recipient.

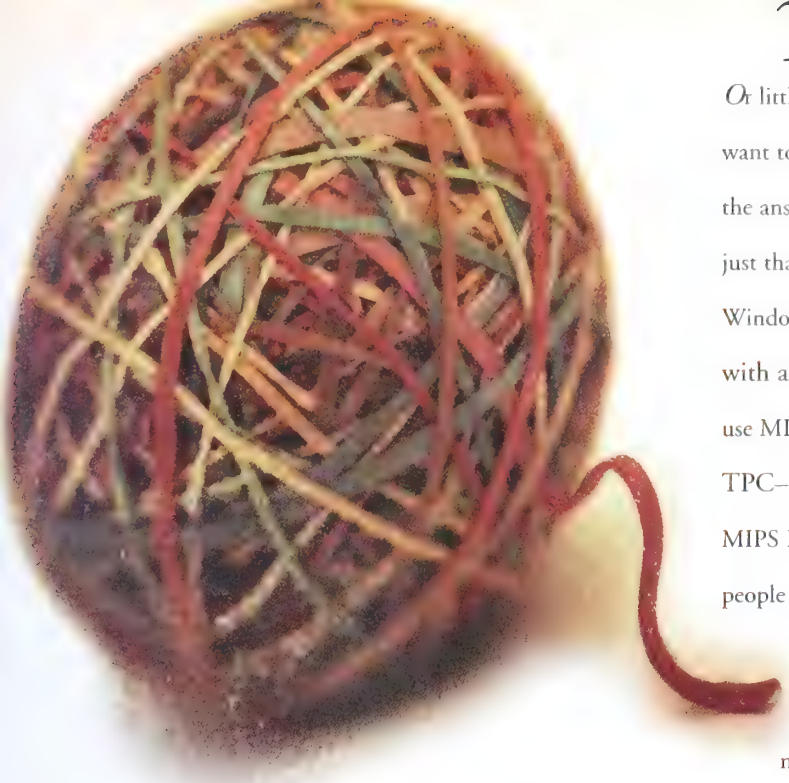
MEDICAID PATIENTS COULD AGAIN SWAMP JACKSON MEMORIAL IN MIAMI

Soon there were abuses aplenty in what became the equivalent of a health-care gold rush. For example, a 1994 investigation by the Fort Lauderdale *Sun-Sentinel* found that some plans signed up patients, such as severely retarded recipients or those hundreds of miles away from clinics, without their knowledge. A resulting state review found only eight plans to have no regulatory problems: The other 21 received fines or moratoriums on new enrollees or both. The state rescinded contracts with two plans, and the Florida attorney general is investigating another for fraud. "We've seen costs come down," says Douglas M. Cook, director of the Agency for Health Care Administration, "[but] because we moved aggressively, we paid a price in quality."

Longer term, the state must bring the program under control. Medicaid soaks up 17% of Florida's general revenue budget. And given the state's aging population, that burden seems certain to grow. "The fastest-growing segment of the population is over 85," says Cook. "People retire in Florida, outlive their retirement [funds] or ability of relatives to care for them, end up in hospitals and nursing homes—and Medicaid pays for them."

As for Jackson Memorial, officials fret that Washington's Medicaid caps could return the hospital to its late-1980s crunch. Says Chief Executive Ira Clark with a sigh: "Our fear is that the Medicaid population will stop being attractive [to private physicians and health plans], and they will all be back."

By Gail DeGeorge in Miami



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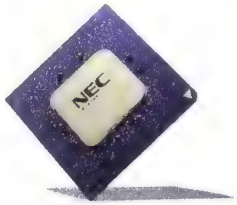

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is what Harvard University professor Paul E. Peterson calls "a race to the bottom." States could start making it harder and harder for anyone to receive welfare benefits, with governors vying to come up with the most draconian program.

Cover Story

And since the block grant scheme being considered by Congress would no longer tie federal aid to how much states themselves spend, governors could slash away without much fear of any federal reprisals.

Still, many governors feel the potential benefits of devolution are worth the risks. "We've got to get relief from bureaucratic, overly micromanaged programs coming out of Washington," explains New York Governor George E. Pataki. Certainly by this fall, the nation's governors can expect Congress to give them powers they had only dreamed of before. But what is power without the funding? "It could be an empty victory," sighs Indiana's Bayh. Adds a more pessimistic David B. Walker, a University of Connecticut federalism scholar: "The states are being handed a box of chocolates, and some of them contain cyanide." Ready or not, it's time for the states to choose.

By Kevin Kelly in Chicago and Richard A. Melcher in St. Paul, with Susan B. Garland in Washington, Wendy Zellner in Dallas, Antonio Fins in Miami, and bureau reports

California / Environment

★

THE GOLDEN STATE'S FADING GREENS

Mark Murray, director of Californians Against Waste, was anxious to make the rounds in Sacramento after Republicans swept the election last November. But just minutes after receiving a warm welcome from freshman Assemblyman Bruce Thompson, Murray, an advocate for recycling, was abruptly shown the door. Why? The assemblyman had mistaken Californians Against Waste for an antitax group. "I'm not with you," Thompson then told the bewildered Murray. "I'm with business."

These are dark days for environmentalists. And nowhere is that more true than in California, a state almost synonymous with environmentalism. Since establishing Yosemite Valley as the nation's first state park in 1864, Californians have been at the forefront of a national movement that spawned sweeping federal laws such as the Endangered Species Act and the Clean Air Act. But the Republican Revolution in Congress has sparked a war on federal environmental laws, and an equally fierce battle is raging in Sacramento. The upshot: Like welfare and Medicaid, environmental policy will shift away from federal mandate and into the hands of cost-conscious state legislators.

If any state is in a position to manage its own environmental affairs, it should be California. For decades, Washington followed Sacramento's lead in adopting tough laws regulating everything from toxic waste to offshore drilling. And creation of the powerful California Air Resources Board is forcing Detroit to develop electric cars, to debut in 1998.

GOVERNOR WILSON IS RECONSIDERING HIS SUPPORT FOR ELECTRIC CARS

Such policies, however, are increasingly under attack. With California's prolonged economic slump, the Golden State is in a heated debate over whether rigid environmental protection is compatible with economic growth and job creation. In the current budget, state park funding has been slashed 25%. More cuts are sure to follow.

Leading the charge is Governor Pete Wilson. Anxious to score points in his Presidential bid, he has quickly backpedaled on earlier campaign promises to "secure the spirituality of Big Sur and safeguard cathedrals of redwoods." He now proposes gutting California's Endangered Species Act by compensating private property owners for economic loss and by requiring legislative approval of each new bird or fish listed. And he's reconsidering his earlier support of the electric car mandate.

UNTHINKABLE. Wilson won't get much opposition from a new crop of Republican legislators. With strong support from the oil, farming, and development industries, several have launched an assault on more than a dozen environmental laws. Their plans range from loosening pesticide regulations to exempting some timber companies from logging restrictions. "We're a hairsbreadth from losing these fights," worries Sierra Club lobbyist John White.

Not long ago, such dire predictions would have been unthinkable. Now, local political support for environmentalism by both the GOP and some Democrats is fading. That's why many Californians fret that giving more power to the states may be just another way of saying less environmental spending and more pollution.

By Eric Schine in Los Angeles

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BROKERAGE HOUSES

CAN IT PLAY OUT OF PEORIA?

Edward D. Jones & Co. heads to big cities

It sounds like a throwback to the 1950s—selling stocks door-to-door. But for stockbroker Timothy J. Finucan, the Edward D. Jones & Co. formula has worked terrifically. Eight years ago, the 33-year-old Wisconsin native launched his one-man office by knocking on nearly every door in Webster City, Iowa—pop. 7,894. With the nearest big-city brokerages 20 miles away in Fort Dodge, Iowa, he peddled a plain-vanilla mix of stocks, bonds, and mutual funds, urging customers to buy and hold. Now, Finucan is a top producer at a firm where run-of-the-mill brokers earn six-figure incomes. "It's a great firm," he gushes.

He's not the only one who thinks so. Though relatively unknown beyond small towns, St. Louis-based Edward D. Jones, whose roots go back to 1871, has prospered mightily by sticking to old-fashioned values that some better-known competitors have lost sight of. The firm tightly monitors its sales force. It steers customers, many of whom are inexperienced, away from risky investments. Through various incentives, it encourages brokers to act in customers' interests rather than their own. Not surprisingly, Jones ranks at the top in customer surveys. From 300 offices in 1980, Jones today has 3,350—six times as many branches as Merrill Lynch & Co.

Yet this year, the Jones juggernaut has lost some steam. It has saturated many of the best small-town locations, causing veteran brokers such as Finucan to fret about newcomers encroaching on their territories. Jones is striving to expand into larger communities but is running into stiffer competition. Door-to-door marketing that works wonders in rural Iowa falls flat in some major metropolitan areas such as Los Angeles, assert critics inside and outside the company. Among the reasons: costly solo offices, low name recognition, and limited array of products. Earnings at Jones, which is a private partnership, fell 19% last year, to $53.8 million—the first drop since 1981 (charts). That was better than the industry's 87% decline in 1994. But Brown Bros. Harriman & Co. analyst Perrin Long predicts that while Jones's profits will rebound in 1995, they will still lag behind the industry.

HOLDING STEADY. The principal architect of Jones's expansion, managing partner John Bachmann, is stepping on the brakes to regroup. The firm won't open any additional offices in 1995, the first no-growth year since the low-key unflappable Bachmann took over from the founder's son in 1980. Yet the 56-year-old Midwesterner stands by an oft-stated goal of 10,000 offices—including another 4,000 over the next five years. "We have to have a large network to be competitive, and we want to get there quickly," Bachmann explains. But Jones's vaunted quality could suffer, warns Long. "They're growing too fast."

To date, quality-control has been one of Jones's hallmarks. The firm has developed a mother-hen monitoring system at the home office that provides equa

DATA: EDWARD D. JONES & CO., BROWN BROS. HARRIMAN & CO.

s hand-holding, suspi-
s scrutiny, and decrees
on high. It allows
hdogs to check ac-
ts across the country
potential problems,
as excessive trading.
nes also keeps its bro-
out of trouble by lim-
product offerings.
it 31% of Jones's $658
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es from selling the
s of a half-dozen mainstream fami-
including American, Goldman Sachs,
Putnam. Government securities, cor-
te bonds, and other fixed-income
ucts account for 24%, individual
ks 14%, and insurance products,
as annuities, an additional 13%.
s customers hold their funds for an
age 18.3 years, three times longer
the industry standard. The firm
t offer lower-rated securities or
ks that sell for less than $4 per
e. It has few fee-based accounts,
almost no initial public offerings,
strictly forbids futures and options.
for amateurs," Bachmann explains.
nes also offers no proprietary prod-
eliminating the potential for conflict
een broker and customer interests.
ales contests for brokers stress di-
ification, rewarding those who sell a
rather than a single, favored prod-
Brokers who assist in training and
rvision can become limited or gen-
partners, entitling them to a slice of
profits.

eeping Jones brokers in clover as
firm expands into cities will not be
Bachmann is instituting a variety
forms. He is restructuring a training
ram that had grown too impersonal
ring skyrocketed. The firm now em-
s a screening exam that better iden-
the driven self-starters who tend to
eed at Jones. In a bid for better
e recognition, Jones will modestly
ease its meager advertising budget.
the firm has launched a $100 mil-
computer upgrade to improve com-
ications with the branches.

RILL MARAUDER. Some Edward
s brokers in tougher markets such
outhern California and New Eng-
call for more radical changes: a
sive advertising commitment, mul-
ker offices to reduce overhead, and
oader product line—such as a wid-
rray of mutual funds. Jones did re-
ly acquire a Missouri thrift, allowing
expand trust services and move
mortgage banking.

nose moves could help in a looming
petitive battle with Merrill Lynch,
h is pushing into small communities.
r the next three years, the New
k-based firm will expand from 125

REGROUPING
John Bachmann has slowed his rapid-expansion program

small-market branches to 250, with an average 3.5 brokers per office. Merrill's lower-cost offices, stronger name recognition, and broader product line give it a big edge, says Paul A. Stein, who oversees the firm's foray into the sticks. Broker Jeffrey J. Bobrowicz, who left Jones for Merrill last year, believes the direct competition will slow Bachmann's planned dash to 10,000 offices: "With Merrill Lynch doing what they're doing, I don't see any way they're going to make that," he says.

Bachmann's not worried: "Merrill Lynch is trying to do everything they can to emulate our system with people they've pirated away from us." He's more concerned about powerhouse regional banks such as First Chicago NBD. Bachmann denies rumors that he might sell out to a banking titan. He adds, though, that to compete against them, Jones must continue growing.

But is he pushing his one-broker offices to areas where they're unworkable? No way, Bachmann replies. The "knock-knock, sell stock" formula will work in every community once Jones attains critical mass, he says. The firm has a computerized map of the U.S. that identifies with a green dot each street-corner destined for a new Jones office. Under Bachmann, Jones will either turn those green dots into 10,000 branches—or rub its knuckles raw trying.

By Greg Burns in St. Louis

BANKS

HONGKONG & SHANGHAI VS. THE WORLD

The bank must reassert itself as big rivals like Citibank move in

For two decades, Hongkong & Shanghai Banking Corp. focused on conquering new continents. But even as the group was spending $7 billion gobbling up London's Midland Bank and New York's Marine Midland Bank, Citibank and other rivals were busy carving out formidable retail banking empires in Asia.

Now, HSBC is fighting back to hold its home turf. In what is shaping up as a battle royal over Asia's consumers, HSBC's Hongkong Bank is launching a $180 million drive to sell consumers across Asia everything from credit cards to mutual funds. In particular, it is chasing Citi's stronghold: the region's swelling pool of newly rich. Says Warner G. N. Manning, senior manager for banking services: "We're going to make a run at Citi."

BOND: *Catering to the newly rich*

That's an ambitious goal. But securing a more solid retail-banking foothold in the world's fastest-growing region is critical to the future of HSBC Holdings PLC, the London-based owner of Hongkong Bank and its affiliates, whose $315 billion in assets makes it the seventh-largest global banking group in the world. HSBC is counting heavily on Asia to maintain its long record of solid profit growth. While only 40% of the group's assets are in Asia, the region accounted for 60% of last year's $2.45 billion in profits.

STOCK GAIN. To preserve its lead, HSBC has spent the past three years designing a sweeping overhaul of its Asian operations. With $5 billion in cash on the group's books, no one doubts HSBC's resolve to bolster its brand name and protect its playing field. Says CEO John R. H. Bond: "We've got to make damn certain that we maintain our competitive advantage."

So far, investors like what they're

(TOP TO BOTTOM) PHOTOGRAPHS BY GREG KIGER, MARK HARRISON/KATZ/SABA

The bank is trying to build brand loyalty everywhere from New Zealand to Kuala Lumpur

seeing. With analysts such as Morgan Stanley & Co.'s Karen Udovenya predicting that HSBC's profits will grow 14% annually for the next three years, the group's shares have risen 27%, to $13.25, since Mar. 1, neatly beating the 13% advance of the Hang Seng Index in Hong Kong.

The consumer focus is a sharp departure for 130-year-old HSBC. The group has long regarded its Hong Kong branches as a source of cheap funds it could lend to fast-growing local corporations. That simple formula made Hongkong Bank among the world's most profitable institutions. Now, deregulation of interest rates and increasingly aggressive local competitors are squeezing the bank's retail profit margins.

Meanwhile, Citi's pursuit of wealthier customers has created a hugely profitable consumer business across Asia. According to NatWest Securities Corp. analyst Stephen Berman, Citi shelled out a huge $600 million between 1991 and 1993 alone to expand in emerging markets. A "significant" portion of the sum was earmarked for Asia, where Citi already has 4.2 million account holders and 3 million credit-card customers. Last year, Berman figures, these affluent customers helped Citi earn a tidy 1.4% return on its Asian assets. But Berman thinks that with the Asian middle class growing by 8% per year, the region over time could produce a return of 2%—nearly double what Citi earned worldwide in 1994.

SMART CARDS. Thanks in part to Citi's inroads, HSBC now realizes that the retail market in Asia contains immense profit potential. The bank hopes to grab a 10% share of the market of Asians outside Japan earning more than $30,000 annually, a group that it says may reach 69 million as soon as 1998. To do so, it is launching a marketing blitz for credit cards, mutual funds, and high-tech "smart cards" that carry electronic cash balances and let customers pay for everything from restaurant tabs to cable-TV programs.

HSBC is also launching a fleet of new branches specially designed for upscale customers. Its Select Personal Finance Center in downtown Hong Kong is reserved for customers with special AssetVantage accounts that require a minimum balance of $26,000. Upon entering, clients are greeted by smiling attendants and offered coffee, tea, and chocolates. The sales staff is trained to give clients personal advice on everything from mutual funds to currency swaps.

FIRST CLASS: A VIP LOUNGE FOR HONG KONG CUSTOMERS

Big Banks Duke it Out

HSBC'S STRENGTHS	CITI'S STRENGTHS
• Overwhelming market share and biggest branch network in Hong Kong	• Strongest brand name in Asian retail business, especially among upscale consumers
• Longtime presence throughout Asia, especially in India, Malaysia, and Singapore	• More extensive presence in markets outside Hong Kong
• Richest and most technologically advanced Asian financial group	• Ability to offer Asian business executives global electronic banking services

DATA: BUSINESS WEEK

So far, the bank has opened three Select centers in the territory and plans to have 10 by yearend to serve more than 100,000 AssetVantage customers. Hongkong Bank is also offering PowerVantage, an account with fewer frills aimed at Asian yuppies who need consumer credit, and BusinessVantage for small entrepreneurs. Officials say these programs have helped Hongkong Bank hold on to its market share and have even prompted some clients to shift funds from competitors.

Hongkong Bank also has begun planting its flag around the region, where many governments have started liberalizing their financial markets. It is offering credit cards in Thailand, where Citi already has more than half of the market, and will soon be in Taiwan and Indonesia. It's also targeting upper-income consumers in New Zealand and Singapore by opening special AssetVantage branches there. And in Kuala Lumpur the bank is trying to build the sort of long-term brand loyalty that Citi already has by rolling out a program called Partner. HSBC will let middle-class customers in the door for a more modest initial deposit of $2,500. But it's hoping that they will stick with HSBC as their incomes—and their need for banking services—expand.

ONE-STOP SHOPPING. HSBC's retail push to best Citi is coming at the same time as it is strengthening its corporate and investment banking businesses in Asia and worldwide. The idea is that the bank will offer one-stop shopping for wealthy Asian entrepreneurs who need both personal and business banking services—an approach quite similar to Citi's in the region.

The two-pronged campaign is already making Citi sit up and take notice. "We definitely are seeing Hongkong Bank become more aggressive and more focused on retail than they have ever been," says Steven Norris, Singapore-based marketing director for Citi's Asian retail business. For now, though, he maintains there's more than enough growth in Asian markets for two giants to thrive side by side.

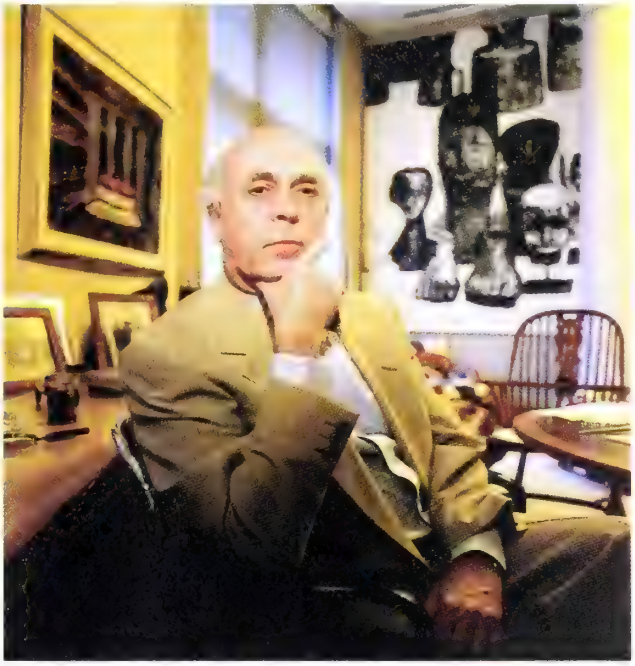
Will such efforts enable HSBC to leapfrog its U.S. and Asian competitors? As the Hong Kong heavyweight tries to spread its brand name across the region, the likes of Citi and Bank of China show little concern. "From our perspective," says Citi's Norris, "they still aren't going far enough." But few doubt that HSBC will be the next major player. And with HSBC on the march, expect some furious battles to erupt before long on Asia's shores.

By Pete Engardio in Hong Kong, with Paula Dwyer in London

UMPING THAT REAL ESTATE IVESTMENT FROM HELL

averick financier may offer a key to locked-in partners

ast year, Kenneth Fried inherited a ousy investment: 'ather's $500,000 e in a real estate ed partnership. annual payout measly, and the e of the two ston apartment lings owned by partnership had ped sharply. With ublic market for estate partner-s, Fried could be k with the invest-t for many years ss he was willing ccept pennies on dollar. "It ticks ff," says Fried. elp may be on way. A maverick on financier is of-g a possible es-hatch to Fried other investors in Winrock-Hous-LP, a $30 million fund launched in . Putting a new spin on the vul-investing game, developer Bruce Beal is attempting a hostile take-of Winrock-Houston, which could nvestors get a lot more of their out of the low-yielding investment. is a well-known figure in Boston estate circles, where his family is of the largest property owners. He n a crusade to liberate investors rushed into partnerships at the real e market's peak and who have seen dividends dwindle or disappear. ions of investors need a way out of nerships controlled by entrenched ral partners whose only interest is ing things going so they can collect fees," says Beal.



BEAL: *He wants to pull off "more and bigger deals"*

D TRUST. What has normally locked nited partners is the fact that they virtually no say in how their in-ment is managed. Even when their lends are being cut, the general ner controlling the assets typically s getting fees—and can keep the nership intact for as long as 40 s. Beal's strategy is simple: get rid e general partner. He wants to convince 51% of Winrock-Houston's 250 limited partners to vote out the general partner, Boston-based Winthrop Financial Associates LP. If Beal wins, he will replace Winthrop as general partner and sell the assets within two and a half years. He'll then distribute the proceeds, minus his 4% fee, and move on to larger targets.

The Beal takeover attempt is one of the first of its kind in the real estate world. Industry experts say other real estate pros are mulling similar moves. "A lot of people are expecting 1980s-style hostile takeovers" of real estate limited partnerships, says Lawrence G. Preble, a real estate lawyer with O'Melveny & Myers in Los Angeles. "It needs to be done," says Beal family friend Robert A. G. Monks, who leads campaigns to shake up corporate boards. "It's an example of how passive investors can protect themselves."

Until recently, Winthrop seemed a likely candidate for Beal. It was one of the nation's largest real estate syndicators in the 1980s, selling some 280 limited partnerships. But it began losing money after the syndication market dried up in the early 1990s. However, Winthrop's prospects got brighter on July 18, when Apollo Real Estate Advisers, one of the savviest and most aggressive vulture real estate investors around, upped their investment in Winthrop to a majority stake.

TOO EXPENSIVE? Winthrop, under Apollo's control, is putting up a feisty defense. After a five-week proxy battle, Beal and Winthrop are now bickering over the vote count. Each claims victory, but with no rules or legal precedents for vote-counting procedures in proxy fights involving limited partnerships, the matter may well end up in court. "There's a lot for lawyers to argue over," says Philip Johnston, an Ohio real estate lawyer. Beal says he is resolved to fight on. But W. Edward Scheetz, a partner at Apollo, says Beal's strategy will fail regardless of who wins. "It won't catch on," he says. "It's too expensive," and the payoff is too low.

Beal agrees that his battle is costly. The legal and administrative costs he is absorbing are so high that Beal says he won't make a profit even if he wins and collects a 4% fee from a sale of the properties, which he values at about $25 million. "This strategy will only work if I can do more and bigger deals," he says. He's already fighting Winthrop over a second limited partnership. And he plans to launch proxy fights soon against bigger outfits, such as Paine-Webber's Retail Properties Investors Inc., which owns $200 million worth of shopping centers in the South and has thousands of investors. Also on his list: partnerships sold by Merrill Lynch & Co. and California real estate magnate John W. English.

No matter what the outcome of the contest, Fried says the limited partners will come out ahead. In attempting to fight off Beal, Winthrop has promised to buy out investors for at least 67¢ on the dollar. Given the murkiness of the legal issues, though, it may be quite a long time before large numbers of limited partnership investors finally achieve liberation.

By Geoffrey Smith in Boston

BEAL'S PLAN TO FREE LIMITED PARTNERS

TARGET real estate limited partnerships with poor returns and unhappy investors

LAUNCH proxy contest to allow limited partners to replace general partner with Beal

SELL partnership's properties for best available price and distribute proceeds to limited partners

COLLECT flat fee of 4% of sale price

DATA: BUSINESS WEEK

BRIAN SMITH

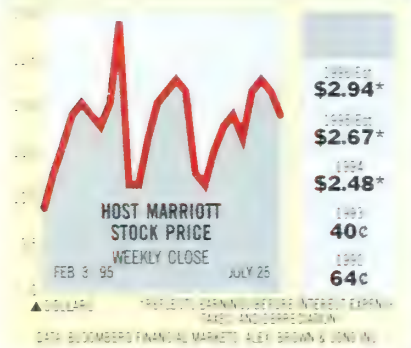
BY GENE G. MARCIAL

MARRIOTT MAY BE A SLEEPING BEAUTY

Hotels are on a roll, so why is Host Marriott (HMT) in limbo? For two years, shares of this chain have wobbled between 9 and 12. Not even the 1995 market surge has managed to rouse it. But lately, the smart-money crowd has woken up to Marriott.

"Marriott is one of the few remaining franchise names in hotels," says investment manager Bill Harnisch, "It's expanding through acquisitions while selling off some assets." The recovery

PROPERTY VALUES WILL RISE



of lodging is providing strong upward momentum to earnings, he adds. "And you're buying the stock off its lows."

That's why his New York investment firm, Forstmann-Leff Associates, has snapped up a 6% stake. Harnisch says Marriott is way undervalued, based on assets and expansion plans. He figures the shares are worth 20.

Whispers are that a major soft-drink company will go after the Host Marriott Travel Plazas unit, which operates food and gift concessions in 75 airports. The division, estimated to be worth $800 million, also has outlets at 35 stadiums and 100 toll-road rest stops.

Host Marriott was expected to spin off this outfit by yearend. But before then, the beverage maker may well buy the operation, which it sees as a logical fit with its business. The travel plazas, analysts say, produce cash flow of $100 million a year. Marriott would not comment on whether an offer for the plazas had been received. "We are considering all options," says a Marriott spokesman.

Before October, 1993, Host Marriott was called Marriott Corp. At that time, its hotel-management arm was spun off as part of a separate outfit, Marriott International (MAR). That left Host Marriott with 121 hotel properties: 45 Marriotts, 54 Courtyard Inns, 18 Residence Inns, and 4 Fairfield Inns.

HARNISCH: *Get in on the ground floor*

"The quality of the hotels continues to improve," says analyst Camille Humphries of Alex. Brown, "as full-service hotels become a larger and larger percentage of Host Marriott's real estate portfolio." She is impressed by the company's acquisition strategy. And she says the rise in hotel property values bodes well for Marriott's stock.

THE NEXT BANK TO WATCH?

Boston Co. money manager David Diamond thinks small but makes big hits. Every stock he buys has a market capitalization under $750 million. Yet his Small-Cap Value Fund, whose assets he says will jump from $270 million to $475 million this year, is up 24% so far in 1995—a tad ahead of the Dow. Why? Many of his picks end up as buyout targets.

That's what Diamond suspects lies in store for one of his latest picks: Community Bank System (CBSI), a holding company for Community Bank, which operates 36 commercial banks in upstate New York. He bought 3% of the stock, although it had been in a downswing, because of expectations that second-quarter and 1995 profits would be disappointing. But with assets of $1 billion, a healthy balance sheet, a low price-earnings ratio, and dominance in the regions it serves, Community Bank appeared truly undervalued, says Diamond. He thought Community Bank would be an ideal target for a larger bank wanting to penetrate the region.

True enough, Marine Midland Banks, owned by Hongkong & Shanghai Banking, did not hesitate to buy a 4.9% stake in the bank, in June.

Diamond suspects Marine Midland will ultimately go after Community. "Why else would it acquire a big piece of the stock? It is in a somewhat similar market, and it's easy to see the franchise value that Community Bank has," says Diamond, who thinks the shares are easily worth "north of 50." CFO David G. Wallace says Marine Midland hasn't made a buyout offer.

SALANT LOOKS BETTER IN JEANS

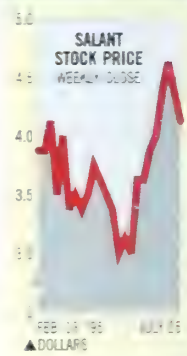
You might say Salant (SLT), which manufactures men's and women's apparel, including designer brands Perry Ellis and John Henry, was a casualty of the 1980s: It got deep in debt and in 1990 filed for Chapter 11 protection. Three years later, Salant emerged from bankruptcy after restructuring. Now, it's back on the Big Board, where it climbed from 3 a share in mid-May to 4¼ on July 25.

And there could be more upside action ahead, if you look at the big players who have bought in: Leon Black, whose Apollo Group has acquired a hefty 41% stake, and Mutual Series Group's Michael Price, who holds 5%.

Despite losses in 1994 and the first quarter of this year, Salant could be in the black for this fiscal year, says George Putnam, editor of *The Turnaround Letter* in Boston. The company has dealt with cost problems at some plants, he notes, and pricing pressure should be offset by rising revenues, which totaled $419 million in fiscal 1995.

What could really put Salant back on track, says Putnam, is Canyon River Blues, a line of denim and other casual wear it's producing for Sears Roebuck. "Sears expects to do a huge promotional campaign for the new line in early fall," says Putnam.

SOON ON THE RACKS AT SEARS



He figures the Sears line could kick in during the third and fourth quarters and estimates it might help Salant earn 40¢ a share this year.

Putnam argues that vulture investors Black and Price won't let up till management does its best to push the stock up. "This Sears line will be a huge help," he adds. Putnam expects the stock to hit 10 in a couple of years.

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Director of Mass Markets and Operations-Processes. "We are now implementing a program to provide an integrated and unified approach to management-by-facts."

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That's why we've chosen them as the 1995 recipient of our Enterprise Computing Award—given annually to the organization that best exhibits excellence in leveraging SAS Institute technology to meet critical business goals.

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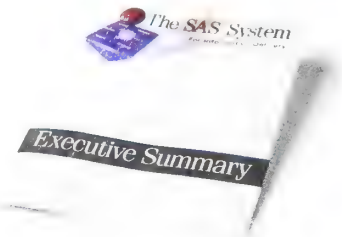


CHIPMAKERS

TEXAS INSTRUMENTS' GLOBAL CHIP PAYOFF

The company is ready to cash in on the biggest bonanza in high-tech history

TI CHIPS BEING COMPUTER-DESIGNED IN FRANCE

HOW TI'S SYSTEM WORKS

1 In Sweden, Ericsson engineers brainstorm with TI experts to improve the quality on Ericsson's digital phone equipment.

2 On the sunny Riviera, a team of TI designers turn Ericsson's vision into electronic blueprints.

Texas Instruments' high-speed telecommunications chip may look like any other semiconductor. But it's the product of a world's worth of effort. Conceived with engineers from Ericsson Telephone Co. in Sweden, it was designed in Nice with TI software tools developed in Houston. Today, the TCM9055 chip is produced in Japan and Dallas, tested in Taiwan, and wired into Ericsson line-cards that monitor phone systems in Sweden, the U.S., Mexico, and Australia.

Sound complicated? It is. Rather than build factories around the world at up to $1 billion a pop, most chip companies make most of their devices at home and ship them out by plane. Not Texas Instruments Inc. More than 40% of the employees in its $6.8 billion semiconductor group work outside the U.S. And it has cutting-edge fabrication plants—known as "fabs"—in more countries than anyone.

Some industry leaders question TI's globetrotting ways. With demand for chips soaring, most manufacturers are selling everything they can produce without jumping through hoops overseas. Rather than go offshore, Intel Corp., for one, is expanding fabs in New Mexico, Oregon, and Arizona. "We put our plants where they can be cost-competitive," says Intel Chief Operating Officer Craig R. Barrett.

But more chipmakers are following TI's lead. They now see that a local presence can help them to win orders. And a regional base provides chipmakers with a hedge against currency swings.

TI is beginning to see its strategy pay off. Some 65% of the company's chip sales are outside the U.S., while Intel and Motorola Inc. still sell half their chips in America and NEC Corp. gets 60% of sales at home in Japan (chart, page 66). That means TI is positioned to tap market growth wherever it occurs. Market researcher Dataquest Inc. expects worldwide chip sales to rocket from $110 billion this year to $273 billion in 2000—with 61% of the growth outside the U.S. And, says G. Dan Hutcheson, president of market researcher VLSI Research Inc. in San Jose, Calif., "no one can beat TI's ability to design and manufacture semiconductors overseas."

e result: From Nokia hones in Scandinavia to seatback entertainment ms for Boeing 777s, a number of products d the world are being ned with TI parts. e intent on using our raphic position as a etitive advantage," de- s Thomas J. Engibous, dent of TI's semiconduc- roup.

far so good. TI is the chipmaker besides Sam- Electronics Co. to gain l market share in each e past three years, ac- ng to Dataquest. In the half of fiscal 1995, which d July 18, TI posted d earnings on record —$508 million and $6.1 , respectively. TI shares are around p over 90% since Jan. 1, exceeding verage gains of other chipmakers e high-tech bull market.

ING BACK. Before the global strat- came into focus, TI was almost d out of the market for dynamic m-access memory chips (DRAM) by rivals. Its share sank from 11% to uring the 1980s. Other U. S. DRAM rs just gave up. TI fought back. , it generated billions by vigorous- rsuing patent royalties. Then, in it made a bold bet. It began swap- research on next-generation DRAMs one of its toughest rivals, giant hi Ltd. Over the next five years, r links followed—between NEC and Intel and Sharp, and the trio of ba, Siemens, and IBM.

xt, TI entered a series of manufac- g joint-ventures. In 1989, CEO Jerry nkins agreed to split the $1.2 billion for a fab in Avezzano, Italy, with talian government. Finding no ill s, Junkins made similar deals with anese PC maker Acer, Japan's Kobe , and a consortium in Singapore included Canon, Hewlett-Packard, he Singapore government. Most re- y, the company started Twinstar conductor Inc. with Hitachi.

total, these alliances have saved ompany more than $1 billion in investment and produced a net- of cutting-edge fabs close to cus- rs. All four of TI's production joint res are now doubling their capacity. aking PCs near its joint-venture fab TI, "we can plan our production efficiently," attests Acer America Ronald Chwang. Acer is spending $1 n to expand the Taipei plant.

en competitors give TI grudging e: "They've done a good job of lev- ng other people's money," admits Intel's Barrett. Adds Taiwan Semiconductor Manufacturing President Don Brooks: "TI brought fresh ideas about how to structure capacity deals."

And, without the global push, TI might have missed the current boom in DRAMs, which now account for 29% of its chip profits. "Two years ago, no one wanted to be near the DRAM market," says Apple Computer CEO Michael H. Spindler. "Now, TI just sits back and says, 'Thank you very much.'"

Chipmakers from Japan's Mitsubishi Electric Corp. and Oki Electric Industry Co. to Korea's Samsung are proceeding with global expansions and joint ventures. But to match TI's success, they may also want to copy the way it changed sales and manufacturing practices, too. TI used to reward regional performance rather than contributions to overall corporate health. So, instead of cooperating to win business from multinational customers, salesmen would race past each other in the client's lobby. When parts were scarce, geographic chiefs fought over inventories. Fab managers in 17 sites were rivals for monthly manufacturing honors—not collaborators. "Just having people and functions around the world proved to be a disadvantage," says TI's Engibous.

So for the past four years, the 19-year veteran has been on a crusade to wipe out internal fiefdoms. Now, factories use the same procedures and equipment. With an upgraded computer network, engineers in Dallas can run chip-testing machines at assembly plants in the Philippines. When they find a flaw, they can remotely reprogram the production line by the start of the next shift. Special software now distributes orders to whichever fab needs the work at the moment. The result: With fewer delays in the factory, TI has im-

3 To make prototypes, TI taps Japan's manufacturing expertise through its 31-year-old Japanese subsidiary.

4 Production fans out to include Dallas, so TI can maintain a stable supply and hedge against currency swings.

TI'S JAPANESE UNIT PROVIDES THE BEST IN MANUFACTURING

5 Like most chipmakers, TI packages the finished chips in Southeast Asia. Its global information system lets engineers fix bugs remotely by tweaking automated assembly lines in Taiwan.

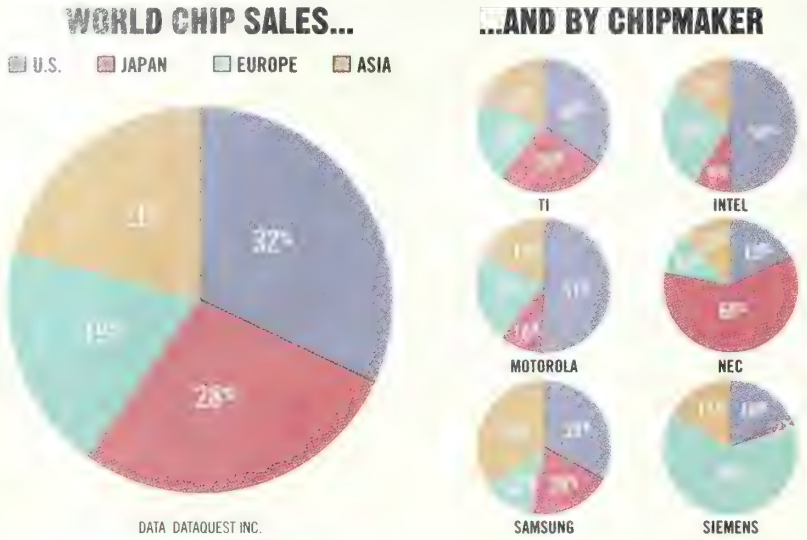
6 TI's chips arrive on time and are embedded in Ericsson phone switches in the U.S., Mexico, Europe, and Australia.

DATA COMPANY REPORTS, BUSINESS WEEK

ERICSSON PHONE SYSTEMS IN MEXICO RELY ON TI CHIPS

(TOP TO BOTTOM) PHOTOGRAPHS COURTESY OF TEXAS INSTRUMENTS; DANTE BUSQUETS SORDO/GAMMA-LIAISON

TI Mirrors the Markets



DATA DATAQUEST INC.

proved on-time delivery from 77% to 96% since 1990.

On the marketing end, country sales groups have been replaced by worldwide teams of product specialists. Trouble-shooting teams, made up of everyone from top executives to factory hands, routinely shuttle between continents. When a machine for depositing chemicals on silicon wafers kept getting contaminated by microscopic dirt at TI's fab in Avezzano, a team of "particle busters" from the U.S., Taiwan, and Japan convened to figure out why.

FAST WORK. One of TI's biggest advantages is a 10-person plant-building team. After two decades of working together, they've reduced fab construction to an art—sailing through regulatory red tape around the globe, finding suppliers of ultrapure water and chemicals, and creating world-class cleanrooms an average of eight months faster than competitors, according to VLSI's Hutcheson.

The cumulative effect of these technological and management steps is huge efficiency gains. By running its 17 fabs as a single virtual factory, Engibous says that TI freed up capacity equal to a brand-new, $500 million plant. "We are starting to see the kind of improvements that truly great companies make," boasts CEO Junkins. Says Motorola Semiconductor Group president Thomas D. George: "If TI is not doing a better job, they're hiding it well."

TI's efficiency is a real marketing edge for customers who need to design and introduce new products in a hurry. It used to take Nokia Mobile Phones Ltd. as much as six months to forge annual contracts that set terms for delivery, payment, and such. "If you made an agreement with a local [TI] organization, say in Europe, you had tremendous problems getting guys in the U.S. and Asia to agree to the same conditions," says Nokia Senior Purchasing Manager Kari Taimi. Now, it's immediate, he says.

The gains haven't been consistent. In Europe, TI is just starting to gain ground on competitors, after five years of shrinking revenues. And compared with Motorola and AT&T, says one European telecom customer, "TI is still weak." But TI Asia, which has more fabs than any company from outside the area, is booming. It will pass TI Europe in size this year and could overtake the U.S. unit by 2000, according to TI Asia President Keh-shew Lu.

A key reason is TI's lead in digital signal processor (DSP) chips, which are ideal for consumer products, from multimedia PCs to futuristic gizmos such as pen-size communicators. In DSPs, "TI is the team to beat," says Will Strauss, president of market researcher Forward Concepts in Tempe, Ariz. He figures the DSP market will hit $16 billion by 2000. "TI is the dominant player, and it's still continually increasing market share."

Another TI global initiative is "systems-on-a-chip." The idea is to etch all the electronics of a new product onto a single slice of silicon, rather than assembling a board full of chips. But without local hand-holding, this approach becomes unwieldy. "Customers don't want to be down for 24 hours or more every time they find a bug," says Senior Vice President Richard K. Templeton.

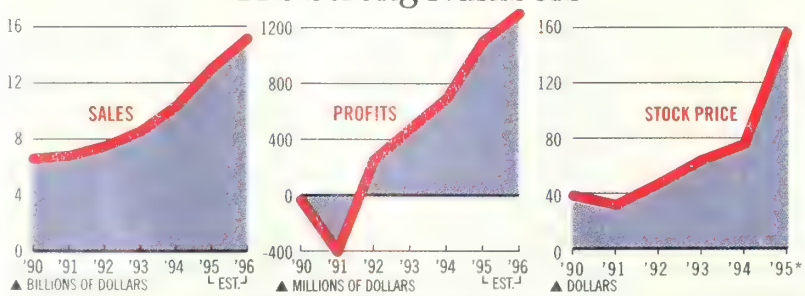
Competition is already intense. In addition to LSI Logic Corp. and Cirrus Logic Inc., TI will soon face Fujitsu, NEC, and Toshiba, as well as Sony and Matsushita. Sony hired LSI Logic to design the guts of its Play Station video game machine. But for the next generation, "Sony will do the work in-house," says Kenji Hori, head of Sony Research in the U.S.

ROUGH SPOTS. TI also faces the prospect of the next downturn in the DRAM business. Motorola's George figures prices will stay high for a few years, but eventually the old roller-coaster cycles will return. "It could be even worse, because there are more big players in the market than ever before," he warns.

TI insists that if it produces a wide enough variety of chips, with the right global balance, it can ride right over such rough spots. "This is not the industry it was in the 1970s and 1980s," Junkins says. "The engine that's pulling us along is bigger than ever. Where else can you find a $100 billion market with $100 billion in growth opportunities?" That tells him that chip companies must shelve their perennial worries. "You make a big mistake if you look in the rearview mirror," he says. Today, if he does glance back, he'll have the gratifying view of competitors eating a lot of TI's dust.

By Peter Burrows in Dallas, with Linda Bernier in Brussels and Pete Engardio in Hong Kong

TI's Strong Numbers

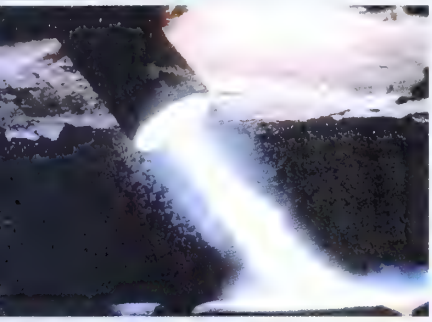


DATA. COMPANY REPORTS, ESTIMATES BY MONTGOMERY SECURITIES

*AS OF JULY 24

ED BY PETER COY

PPING WASTE WITH SUPER-INCINERATORS



IMAGINE A FORCE SO POWERFUL THAT IT transforms waste to burnable fuel and precious metals. Actually, it exists. It's a superhot state of matter called plasma, which occurs in nature when lightning passes through the air. Engineers create plasma in factories by superheating gas and use it to manipulate metals and ceramics. Now, Plasma Energy Applied Technology Inc. (PEAT), located in Huntsville, Ala., intends to commercialize the technology in a waste-management system.

The principle is simple: When a gas is transformed into plasma at a fiery 12,000F and rained on a target, the material decomposes through a process called pyrolysis. The cess requires little oxygen and produces less air pollution than typical incinerators. ined on organic wastes, PEAT's plasma systems generate hydrogen gas. They can also rieve any precious metals present in the waste stream. In theory, such systems can everything, from thermal batteries used to trigger bombs to asbestos and sludge. Other companies, including Westinghouse Electric Corp., have studied plasma waste posal. But it requires a great deal of electricity, which makes it more expensive than inerators or landfills. Still, because the process is clean, San Diego city regulators e agreed to let PEAT build a trial disposal plant for dangerous medical waste.

INNOVATIONS

■ Scientists at the University of California at Berkeley have developed a rust-resistant steel for concrete reinforcing bars that's cheaper than stainless steel. Rods made of Fermar that were embedded in concrete and left in warm salt water for a year showed no corrosion.

■ CareBorne Inc. of Reno, Nev., sells crutches with an extension that curls up behind the shoulder blade. That simple addition increases stability and reduces any underarm irritation experienced by the wearer. The so-called Hope crutches are becoming increasingly popular among college and professional sports teams.

■ Environmentalists say lead sinkers and jigheads used in fishing are polluting lakes and streams. Du-Co Ceramics Co. of Saxonburg, Pa., has responded with a product line that replaces lead with a highly inert magnesium silicate ceramic called steatite.

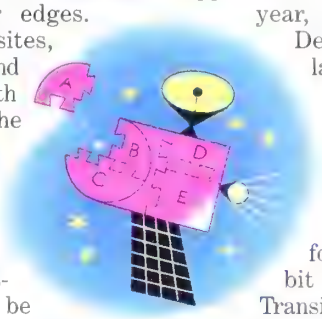
■ Wanted: a 10,000- to 14,000-ft. mountain in the Southwestern United States to be used as a rocket launchpad. According to NASA's Advanced Concepts & Technology Office, a steeply angled mountainside track would accelerate rockets to 600 mph before they flew off the summit, eliminating the need for a throwaway first stage.

KING SPACECRAFT S EASY AS LD'S PLAY

DING SATELLITES JUST me a snap. Engineers at Alamos National Laboraand Composite Optics of San Diego have deed a process by which tructural components of acecraft are snapped ter like a child's toy.

e process—which is t two-thirds faster and per than other methods as welding and bolting—begins with laminated sheets of graphite and epoxy that are cut into pieces by a pinpoint jet of water so powerful it can slice steel. The pieces have half-inch-wide tabs and slots on their edges. Being composites, they don't expand and contract with temperature the way that metals do—important for satellites or other structures where any misalignment can be the source of major problems.

Builders of the Hubble space telescope used Composite Optics' components for some of the instrument's support structures. Next year, the Energy Dept. plans to launch a research satellite made entirely of snap-together composites. It's called FORTE, for Fast On-Orbit Recording of Transient Events.



OME REMEDIES FOR POLLUTION

CLEAN UP POLLUTION, need look no further n your kitchen cupboard medicine cabinet. New earch illustrates the polion-fighting prowess of h common items as salad citric acid, and Mom's faite antiseptic, hydrogen roxide.

Just 1½ quarts of soybean pumped into soil around a well intake could clean some 10,000 gallons of groundwater contaminated with modest amounts of nitrates, according to the U. S. Agriculture Dept.'s Soil-Plant Nutrient Research Unit, in Fort Collins, Colo. The oil feeds bacteria that break down the nitrates into harmless nitrogen gas. Nitrates get into groundwater from excessive fertilizing and irrigation or from mishandling of cattle manure.

Citric acid—the stuff in orange juice—binds with metal contaminants in ash produced by municipal incinerators. The resulting metal citrates can be broken down by bacteria and sunlight. The Energy Dept.'s Brookhaven National Laboratory in Upton, N. Y., is developing the idea with Forrester Environmental Services Inc., in Stratham, N. H.

Hydrogen peroxide is being used as a substitute for chlorine in many processes, from bleaching pulp for paper to treating water. The latest, according to The McGraw-Hill Companies' *Chemical Engineering* magazine, is an extra-pure hydrogen peroxide from Houston-based Solvay Interox for cleaning computer chips and boards.

ILLUSTRATION BY PHILIP ANDERSON; PHOTOGRAPH COURTESY OF PLASMA ENERGY APPLIED TECHNOLOGY, INC.

BELEAGUERED: *CEO Banks is exhausting stockholders' patience*

STRATEGIES

MIGHT A NEW DOCTOR CURE BEVERLY?

The ailing nursing-home chain looks ripe for a takeover

Pity the poor shareholder at Beverly Enterprises Inc. Last April, when the Fort Smith (Ark.) nursing-home chain—the nation's largest—announced plans to spin off most of its Pharmacy Corporation of America (PCA) subsidiary, investors cheered. After years of waiting for management to take action to boost its stalled share price, optimistic investors pushed the stock up 10%, to nearly 16.

The euphoria didn't last long. A month and a half later, an embarrassed Beverly announced that problems at PCA, which sells drugs to institutions, would delay the spin-off. Moreover, PCA's travails would torpedo Beverly's profits. By June, its stock sagged to 11.

MISFIRES. Such is life for Beverly shareholders, who've spent several years hoping that patience with CEO David R. Banks would pay off. Following the company's near-collapse in the late 1980s, Banks, the longtime president, began nursing it back to health. By the mid-1990s, with health care taking off, investors piled back into Beverly stock.

But like the gang that couldn't shoot straight, Banks and his team have since presided over a series of management mishaps. Beverly shares trade today at 13—exactly where they were in late 1992. Among investors' gripes: poor results, missed earnings projections, and questionable acquisitions. Now, in the wake of the botched PCA spin-off, many think Beverly looks ripe for takeover. "If a buyer comes along, I'm going to take my money and run," says one big stockholder.

Indeed, many investors say that if Banks and his team can't fix Beverly, it's time someone else took over. "I wouldn't be surprised at all if investors began pushing for a new management team," says Nancy J. Healy, an analyst at UBS Asset Management Inc., which holds about 1.5 million shares. "The strategy is being completely mismanaged." Bankers say Beverly is popping up on acquisition target lists all over Wall Street. "Hillhaven's going, and it looks as if Beverly could be next," says one investment banker specializing in health care—comparing Beverly with rival Hillhaven Corp. "It looks very vulnerable right now."

SICK LIST. The most visible sign of pressure: In mid-July, Beverly director William K. Weinstein—a senior partner at San Francisco investment bank Genesis Merchant Group Securities—stormed off the board. Investors say Weinstein had pushed the board to hire an investment banker to explore merger options. But when the board—which remains firmly behind Banks—refused, Weinstein quit, blasting the company for not moving to "maximize shareholder value."

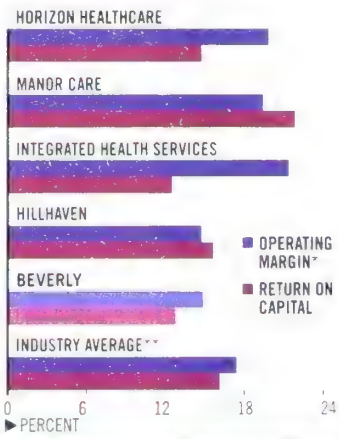
So why is Beverly on everyone's sick list? After all, it has plenty going for it. Sales approach $3 billion, and PCA is the biggest player in the lucrative field of selling drugs to institutions.

Yet for all that, Beverly remains one of health care's worst underperformers. Its 1994 operating margin, at 14.7%, trailed well behind the roughly 20% earned by smaller rivals such as Manor Care Inc. or Integrated Health Services Inc. Its return on capital also lags: At 12.7%, says Dean Witter, Discover & Co. analyst D. Scott Mackesy, Beverly falls below Hillhaven's 15.5% and Manor Care's 21.6% (chart).

David Banks declined to be interviewed by BUSINESS WEEK. But CFO Robert D. Woltil argues Beverly is cutting costs and shifting away from dependence on low-margin Medicaid patients. Beverly has recently boosted its share of higher-paying Medicare and private patients. It's moving into more profitable services, such as rehabilitation therapy and subacute care. "We're doing things that we think make sense for the long term," says Woltil.

Such moves have yet to add much luster to Beverly. Margins have improved

BEVERLY'S LAGGING RESULTS



*BASED ON EARNINGS BEFORE INCOME TAXES, DEPRECIATION, AND RENT
**INDEX OF 17 LONG-TERM AND SUBACUTE CARE COMPANIES
DATA: DEAN WITTER DISCOVER & CO

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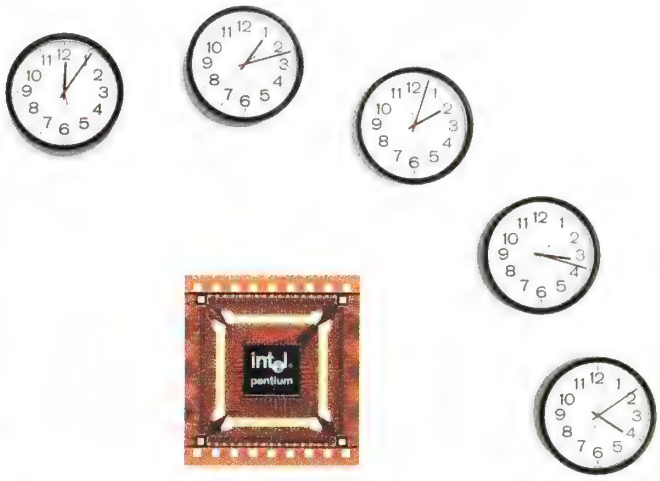

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slightly—but they remain far behind industry leaders. And critics point out that the shift into more lucrative services comes several years behind rivals. Even Woltil concedes that efforts "haven't reached that payoff point yet, but we think they will very soon."

The prospect of a future payoff might be enough to soothe investors—if it weren't for the management miscues. For starters, says John Carlson, portfolio manager at Liberty Investment Management Inc., which holds 2 million shares, Beverly has a history of missing earnings estimates. That has cost it credibility with Wall Street. Although Woltil says the problem is in the past, others aren't sure. "They have a lot of unpleasant earnings surprises ahead of them," says Andre C. Dimitriadis, Beverly's former CFO. "I think financial planning at Beverly is nonexistent."

TOO SLOW. In a bid to diversify, Beverly has also acquired four smaller health-care outfits since early 1994, including Insta-Care Holdings Inc., an institutional-drug marketer, and three subsidiaries of Synetic Inc. But Beverly overpaid for several of the acquisitions, investors and analysts say, yet has been slow to reap benefits. "They really wanted Synetic, and they felt the synergies would offset the price," says Mackesy. "But they didn't get the synergies fast enough." As a result, he estimates 1995 earnings to be up 10%, to $83 million—far weaker than expected earlier.

Beverly had hoped the PCA spin-off would mollify investors. It planned to sell 19.9% of the unit to the public, then spin off the remainder to shareholders. But that, too, has turned into an embarrassing stumble. Just before the spin-off was announced, PCA changed its pricing policies for intravenous-therapy sales. Combining a two-tiered pricing system into one, it offered the same price and service to both high- and low-end clients—and promptly lost many customers. Beverly delayed the spin-off, pushed out PCA's CEO Ronald C. Kayne, and scrambled to put the old payment system back in place. Still, PCA's troubles helped drag Beverly's second-quarter net income down by 24.7%.

Woltil says that PCA is beginning to recover and that the spin-off will occur in early 1996. But skepticism runs high. "This management is unable to run the company effectively," says one shareholder. "If by the end of the year we haven't seen the changes promised at PCA, I think the noise from investors will get much louder." For Beverly's managers, that sound may soon be deafening.

[illegible]

ENTREPRENEURS

THE PIED PIPER OF KIDS' SOFTWARE

Sally Narodick's passion is fueling Edmark's rapid rise

Think a four-year-old couldn't possibly grasp Boolean logic? She might, if she sits down at the computer and plays Fripples To Go. Playing a shopkeeper selling wacky creatures, she'll have to fill such orders as "sunglasses and spots but not curly hair." Or she might learn pattern recognition by mimicking percussion rhythms played by a wild-haired orangutan wearing purple shoes and an earring. If this doesn't sound like educational computer software, think again.

Behind these whimsical characters stands a surprising CEO. She's Sally G. Narodick, a 50-year-old banker-turned-entrepreneur, and she's everything the playful Fripples aren't: serious, well-groomed, intellectual, businesslike. As mother of two, she's passionate about children and education—and knows what kids like. She won't let a product leave Redmond (Wash.)-based Edmark Corp. unless it's fun as well as educational.

THE ITCH. It's been a winning combination. When Narodick became CEO in 1989, Edmark was a sleepy maker of special education materials, with sales of $2.5 million. She hired creative talent and pushed the company into kids' multimedia software for the home market. Edmark's 10 products (table), appealing to kids, parents, and educators alike, have won more than 65 award[illegible] Edmark nearly doubled its sales, t[illegible] $22.7 million, in the fiscal year ende[illegible] June 30 and earned $2 million after los[illegible] ing money a year ago. The stock is siz[illegible] zling: At nearly 50, it's trading at fiv[illegible] times last October's 9¾ (chart). And o[illegible] July 18, the company announced plan[illegible] for a 3-for-2 stock split and a secondar[illegible] offering of 650,000 shares.

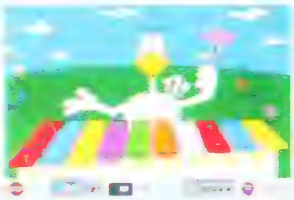
Narodick, who holds masters degree[illegible] in business and education, spent 1[illegible] years at Seattle's Seafirst Corp., risin[illegible] to senior vice-president. In her mid-40[illegible] she got "the entrepreneurial itch" an[illegible] left to form a consulting practice an[illegible] help start a bank. "It was, at the time, [illegible] pretty gutsball decision," Narodick say[illegible] "I gave up a fancy title and a fancy o[illegible] fice—a lot of things women really valu[illegible] in terms of achievement."

Her kids paved the way to Edmark[illegible] When daughter Lisa, now 20, was [illegible] the Narodicks (Kit, her husband, is a[illegible] aviation lawyer) got an IBM PC. Lis[illegible] and two friends grew so fascinated b[illegible] Logo, a children's programming lan[illegible] guage, that they dubbed themselve[illegible] "the Logo Lassies." "I became ver[illegible] interested in what a magical tool th[illegible] was for children," says Narodick.

A few years later, the father of one [illegible] Lisa's classmates, an Edmark directo[illegible]

PROGRAMS THAT MAKE LEARNING CHILD'S PLAY

THINKIN' THINGS COLLECTION 1 (ages 4 to 8) and **COLLECTION 2** (ages 6 to 12): Develop such "thinking skills" as music recognition, visual memory, and spatial awareness.

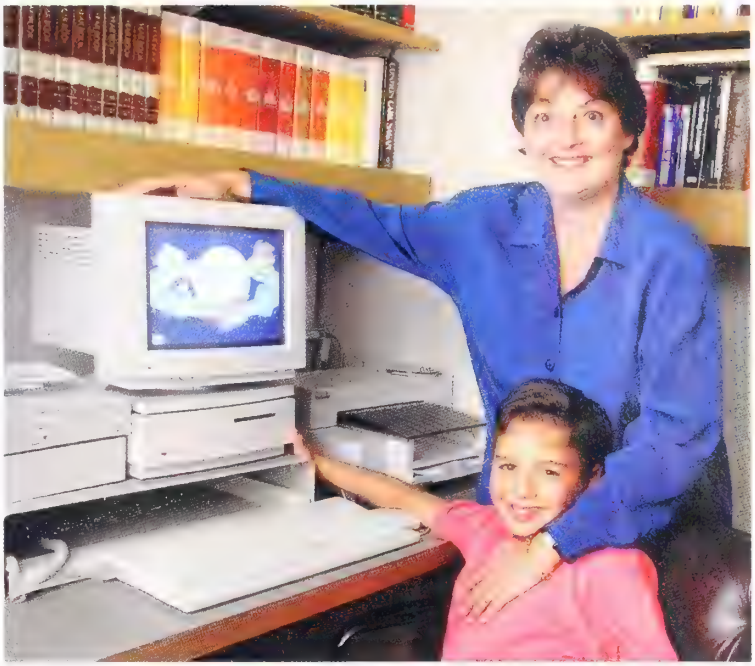


SAMMY'S SCIENCE [illegible] HOUSE; MILLIE'S M[illegible] HOUSE; BAILEY'S B[illegible] HOUSE (ages 2 to [illegible] Preparation for sci[illegible] math, and reading

Narodick to help de- a strategic plan. Her rch showed a surge emand from the kids by boomers, so Naro- suggested a move multimedia software onsumers. The board brought her on as and she hasn't ed from the plan . Now, Narodick's son, p, age 9, plays a role dmark: He and his ds have been testing ompany's software for ast four years. He ap- s in Edmark ads, as the chief financial of- s son. "They are con- d they're responsible he stock price," says dick.

arodick is neither a nological whiz nor a ive genius. To carry her vision, she hired na Stanger as vice- dent for product de- pment. After 20 years a teacher, Stanger t eight years develop- omputer-based curriculum materials company called Sunburst. She and dick met at a conference in Florida quickly realized they shared a vision hat kids' software ought to be.

ER IDEAS. Stanger brought her of programmers with her from nesota: three young men who had ked with her since they were in school. In 1992, after six months of and-night programming, they had ark's first two consumer products: e's Math House and KidDesk, a program that lets kids find their rams without damaging their par- data. Other award-winning pro- ns, Bailey's Book House and Sam- Science House, followed. All use colorful graphics, original cartoon characters, and friendly voices to encourage preschoolers to explore ideas rather than learn by rote.



"I became very interested in what a magical tool this was for children"

EDMARK CEO SALLY NARODICK WITH HER SON, PHILIP, 9

But Stanger had bigger ideas: She dreamed of a program that would be fun but would also develop "critical thinking skills," such as recognition of music and rhythm, visual memory, spatial awareness, and logic. In 1994, her team produced Thinkin' Things, starring drummer Oranga Banga, xylophonist Tooney Loon, and, yes, the Boolean Fripples. "They've stuck their neck out to do some different kinds of things," says an admiring Diane Kendall, editor of the newsletter *Children's Software.* Thinkin' Things has become Edmark's biggest hit, selling more than 100,000 copies a year.

Education gurus praise Edmark. "They make some of the finest children's software," says Daniel Shade, a University of Delaware professor and software judge for the National Association for the Education of Young Children. "They seem to understand children's development very well."

KIDS' STUFF. Like most entrepreneurs, Narodick has had setbacks. Her worst error was underestimating the growth of the kids' software market. In 1993, Edmark introduced too few products and spent too little on marketing. Sales for Christmas, 1993 were half what Narodick had predicted.

In 1994, she redoubled marketing efforts, stepped up development, and courted retailers. Edmark hired mothers with young children as part-time workers to spend time in stores explaining its products to clerks and customers. The outlets carrying Edmark products doubled to 5,000 last year, and Narodick says she's on track to double that again in 1995. Sales last Christmas exceeded expectations, and it has been uphill ever since. "Their products have really gotten a strong allegiance," says Lawrence N. Mondry, executive vice-president for merchandising at CompUSA, the nation's biggest PC retailer.

With just under 3% of the $600 million educational software market, 180-employee Edmark is a small player. But it's a fragmented market: Leader Broderbund Software Inc. has about 10%. The fast-growing kids' software business hasn't begun to consolidate, but analysts believe Edmark's recent stock high of 55 was driven by speculation that it might be an acquisition target. "Anyone looking at this company would say, 'Gosh, what a good takeover candidate,'" says Robert D. Kugel, an analyst with Seidler Cos. Narodick says she's open to that option, but thinks it unlikely until market growth slows somewhat. Kugel predicts fiscal 1996 profits of $3.8 million on sales of $40 million.

When Narodick does move on from Edmark, she knows what she wants to do: teach. That's hardly your typical aspiration for a CEO. But then, Sally Narodick is hardly your typical CEO.

By Dori Jones Yang in Redmond, Wash.

ION EXPRESS
o 12): Kids enery, animate rs, narrate nd add sound Three "Destina- eighborhood, r Rainforest.

(ages 3 to 10): ons let kids heir own pro- ccessories calendar, calcu- d address book.

COMING THIS FALL:

- *WINDOWS 95 VERSIONS OF ALL EDMARK PRODUCTS*
- *TRUDY'S TIME AND PLACE HOUSE*
- *THINKIN' THINGS COLLECTION 3*
- *IMAGINATION EXPRESS: DESTINATION OCEAN*

SOFTWARE SIZZLE

DATA: BLOOMBERG FINANCIAL MARKETS

PROMOTERS

STICKY WICKETS, BUT WHAT A FUTURE

Opportunities for selling sports in Asia seem endless

For the organizers of China's new pro soccer league, almost everything was in order: There were 30,000 noisy fans and live television coverage. The Beijing players in green jerseys and shoes supplied by their sponsor, Nike, were raring to go against a Guangzhou team decked out in Reeboks. And there were a bunch of billboards bought by advertisers. But amid the signs for Sony, Olympus, and San Miguel beer were big, white gaps where the red-and-white Marlboro logos had been. Earlier this year, Beijing ruled that the ads may violate China's new ban on tobacco advertising. That forced Philip Morris Cos., which was paying an estimated $2 million annually as the league's chief sponsor, to pull out.

For Cleveland-based International Management Group, which organized China's professional soccer league two years ago, such are the spills and thrills of being out in front on Asia's hottest new marketing battlefield. From Bombay to Beijing, foreign sports promoters, broadcasters, and consumer-product giants are pouring millions into sports.

The pace is breathtaking for a region that never took the business of sports seriously. Until recently, stodgy national federations and state-owned broadcasters cared little about corporate sponsorships, TV, or spin-off products. Now, with the arrival of global sports promoters such as IMG and 24-hour sports stations, once genteel pastimes such as badminton, cricket, and table tennis are rushing into big-bucks competition. In soccer, basketball, and golf, entire professional leagues are being started from scratch.

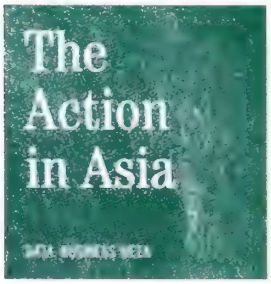
No one seems more enthusiastic about the enormous marketing prospects than the corporate sponsors that are lining up to get in on the action. Japanese racquet manufacturer Yonex Corp., for example, is ponying up $2 million annually as the exclusive equipment supplier for Indonesia's national badminton team. Hiram Walker, R. J. Reynolds, and Rado Uhren are sponsoring golf, tennis, and auto racing events. MasterCard, Pepsi, Gillette, and Canon all have signed four-year, $2.6 million deals to sponsor Asian soccer. Nike has become equipment supplier to soccer and basketball teams in China and has started a series of basketball tournaments for mainland teenagers. "There is no shortage of opportunities," says Breck McCormack, IMG's Hong Kong-based managing director for Asia and son of Chairman Mark H. McCormack. "It's a question of where to focus your resources."

NAME GAME. With government control of the media tight throughout emerging Asia, sponsoring nationally televised sports is seen as the easiest, cheapest way to reach Asia's ballooning middle class of more than 250 million. Take General Motors Corp.'s Adam Opel Div., which last year began assembling cars in Indonesia. GM is paying $850,000 over three years as official sponsor of the country's badminton team. "Not many of our cars are on the road yet, but everyone knows the Opel name," says Andrew Andersz, GM's Asia spokesman.

New sports channels are raising the financial stakes. Prime Sports, part of Rupert Murdoch's Star TV Asian satellite network, is paying an estimated $4 million annually to carry badminton, which is dominated by Asian countries, and it is believed to be shelling out at least $1 million for Chinese soccer. Not to be outdone is ESPN, which by yearend will be beaming satellite signals in Asia around the clock. It recently outbid Prime for rights to Indian cricket with a reported $3 million offer over five years.

While these sums are peanuts compared with the megabucks spent on U. S. and European sports, it's a windfall for the federations that control Asian sports. They mainly have IMG to thank. IMG began promoting table tennis, gym-

THE ARMIES OF NIKE
It is sponsoring four soccer teams–one of them owned by the People's Liberation Army



BADMINTON
World Cup, Asia championship series, and invitationals organized by International Management Group and broadcast across region by Rupert Murdoch's Prime Sports channel.

BASKETBALL
New pro league to be launched this year in China by IMG. Asia Sport Group setting up annual Asia championships. Other promoters trying to start Asia-wide pro league.

CRICKET
ESPN forms broadcast joint venture in India and buys regional TV rights. New tournaments organized and intensive marketing of sport for first in cricket-crazy India.

IMG'S BRECK McCORMACK
With so many promising paths, "it's a question of where to focus your resources"

s, and volleyball in China in 1979. then, it has become exclusive for the Asian Badminton Confed- n and the Board of Cricket Control dia, as well as China's soccer and tball bodies. Even Murdoch envies pervasiveness. "Everywhere we u run into IMG and McCormack," Murdoch. "He got there first."

dminton is a good example. Obscure ro sport in the West, Mark McCor- appreciated its immense popularity a and scooped up marketing rights world championships. Now, IMG is g together invitationals sponsored ngle corporations. Ciba-Geigy Ltd. MG $400,000 to host the mid-June Asia Cup 1995 in Qingdao, China.

is helping turn cricket, India's na- pastime, into a commercial gold Three years ago, it negotiated a o produce TV programming of Indian matches and handle marketing for the national cricket board. By selling the programs to stations in Australia and Europe and to ESPN, which broadcasts in both Hindi and English, IMG helped put Indian cricket on a world stage. Now, corporate sponsorship money is pouring in. "In India, cricket is the NBA, NFL, and Major League Baseball combined," says Alexander P. Brown, ESPN's managing director for Asia. "The dollars available are very substantial."

IMG is betting that its new Chinese sports leagues will soon outgrow their problems. The 12-team soccer league, started in 1994, has been a hit with fans in most cities and has sponsors for each team. Each team also has corporate sponsors. Nike has four teams—including one owned by the People's Liberation Army.

But losing Philip Morris was a blow. Besides paying $2 million annually to IMG, the tobacco giant spent millions hyping the then Marlboro League throughout China. Three months into the season, IMG hopes Beijing will change its mind. Yet it insists many other sponsors are keen to take Philip Morris' place. IMG is also plunging ahead with its eight-city pro basketball league in China, which gets into full swing in November, although it has yet to sell TV rights or find a main corporate sponsor.

TOUR GUIDE. IMG isn't alone in thinking big. Hong Kong's Asia Sport Group is working to link up federations around Asia to stage regional tournaments. In soccer, it organizes a championship series every two years among national squads of the 44-nation Asian Football Confederation. "There's no reason everyone in Asia has to only watch European championships on TV," says Seamus O'Brien, Asia Sport's founder and chairman.

O'Brien's firm already has sold soccer tournament TV rights to Prime. Now, O'Brien is doing the same with the Asian Basketball Confederation, which launches a pro championship tournament in Kuala Lumpur this October. Prime has bought TV rights; Kodak, Nokia, and McDonald's are among those who have committed $500,000 for four-year sponsorship packages. O'Brien's firm also is investing $8 million this year to launch an Asian Professional Golfers' Assn. tour, which so far has held three tournaments. The 144-player tour will have matches with purses of $150,000 to $400,000 in 15 countries, including Vietnam and China.

For the next few years, the Asian PGA tour and the new sports leagues will probably spend a good deal of time in the rough. But as the world's biggest companies scramble for a share of Asia's spending power, sports promoters are betting that it's only a matter of time before their fledgling ventures become multibillion-dollar businesses.

By Pete Engardio in Guangzhou, with Michael Shari in Jakarta, Zachary Schiller in Cleveland, and Shekhar Hattangadi in Bombay

GOLF

ion of PGA golf tour by Asia Sport Group than 100 Asian als competing for up to $400,000. by Prime.

SOCCER

Tournament series organized among 44-member Asian Football Confederation, leading to crowning of an Asian champion. New pro league launched last year in China by IMG.

EDITED BY AMY DUNKIN

WATCHING TO SEE WHAT THE IN-CROWD DOES

Who knows a company's prospects better than the people who run it? Whether or not the higher-ups are buying or selling their stock can be a clue about the future of a company, an industry, even the overall market. Although you can't rely on insider activity alone, it can be useful if you know how to read the tea leaves.

Insider buying is fairly straightforward to interpret. New directors and managers often acquire a handful of shares simply to show they're on the company team. Seasoned executives will buy because they're bullish. So if a new manager buys 1,000 shares, it doesn't mean much—compared with an executive's buying a year's salary worth of stock, says Neil Rudolf, chief operating officer of Insiders Select Portfolio, a new Bear Stearns fund that uses insider activity in its stock-picking strategy.

IBM SLIDE. A decisive buy signal often comes when, after persistently selling as a stock drops, insiders start accumulating shares. IBM is a classic example. When the stock slid from the $80 range to the $40s between September, 1992, and June, 1993, "there were lots of highly thought-of people on the Street who thought the stock would fall further, to $30," says Michael Painchaud, director of research at Market Profile Theorems, a Seattle investment-advisory firm that follows insider behavior. "But there was aggressive insider buying in the $40 range." Continued buying by insiders as the stock moved up provided confirmation of the initial bullish sign. It now trades at 109¾.

INVESTING

Such activity can separate out the good buys at year-end, when stocks in general are down—because that's when investors are selling losers for tax purposes. The trick is to figure out which stocks deserve to be down and which are merely pushed down by year-end selling, says Bo Gabele, whose com pany, CDA/Investne compiles data on in sider trades. "Wher there's significant in sider buying, thos are the best cand dates for bounces."

But to gauge sig nificance, you mus know who's buyin in what quantity, an at what price. vice-president sink ing the equivalent o his salary into th company is a strong er signal than chairman with mi lions in stock buyin a few thousan shares. Likewise o the sell side. Bi Gates may dump lo of Microsoft, bu "even if he sold million shares quarter, it woul take him years t make a dent in h holdings," says Pr veen Gottipalli, fun manager of Insider Select Portfolio.

MORE THAN ONE. also helps to kno an insider's trac record. A perso who buys indiscrim nately is less val able to follow than "smart insider," someone wi a history of buying at lov and selling at highs. Gabe points to Holcombe Green J a director at Georgia Gu He bought aggressively 1990 at 6 to 9 and so steadily over the next fe years at 17 to 26. Therefor his latest buy seems ve bullish: 57,000 shares at 3 in May. "He made a $1.9 m lion commitment. After se

: $25, that's pretty im-
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e insider isn't enough.
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Market Profile's Pain-
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their options is equally important. If they exercise the options to buy the underlying stock and sell it at a small profit, that may mean they're cashing out at the best price they think they can get. Acuson, a maker of ultrasound equipment, had been selling in the 30 to 40 range. By last fall, it had dropped to 14. Insiders were exercising options at 11½ and selling at 14 even though the options weren't expiring, says Gabele. The stock later fell to the 11 to 12 range.

It can be bullish when executives exercise options but hold the stock. Sybase peaked in January at 55. A month later, it dropped to the mid 40s, and five insiders dumped a total of 229,000 shares. In April, Sybase announced a small earnings disappointment, and the stock fell to the low 20s. Then director Michael Kertzman exercised options for 200,000 shares and held the stock. Two other insiders were exercising and holding, and three others were buying small blocks. "That was a good value indication: Six people accumulating stock in the low 21 range," says Gabele. Sybase later rallied to 35.

Also, what looks like a sale may really be a buy. Cirrus Logic's president sold 5,000 shares in February. Meanwhile, he exercised options for an additional 60,000. "If you were only looking at buys and sells, you would see a 5,000-share sale, but in effect the president had picked up 55,000 shares," says Gabele. "You have to look at net effect."

It may be hardest to interpret when insiders are selling as the stock price rises. They obviously want to take profits. But that doesn't necessarily mean the stock has peaked. For example, insiders in the semiconductor industry did their heaviest selling in 1992 and 1993. But the sector still continued to soar.

That's why it's usually not possible to use insiders to time short-term swings. "Insiders aren't good at timing," says Gabele. "They are good at indicating valuation." They're more likely to buy when the stock is a bargain and sell when it's overpriced. But insider activity can presage broad market moves. Trackers look at a ratio of sells to buys. A neutral ratio is around 2.25 sells to 1 buy, says David Coleman, who publishes *Vickers Weekly Insider Report*. Anything below that tends to be bullish. In 1994, lots of buying sent the ratio down to 0.8. But in recent months, buying has dropped precipitously, says Coleman, and the ratio, now about 2.24, is neutral and possibly poised to turn bearish.

The bottom line: When it comes to insider activity, the context is everything. "Using it alone is like a blind person trying to discern what an elephant is with one touch," says Market Profile's Painchaud. He relies on several proprietary data models, along with insider trading, to advise institutional clients. Insiders Select Portfolio uses Gabele's insider data, analyst reports, and corporate fundamentals. Even when the insider activity is pointing to a sure bet, you shouldn't buy a stock that doesn't fit with your investment goals, says Gabele.

Remember, don't just follow the lone insider. If an insider says he is selling to pay for his daughter's wedding, no problem, says Gabele. But if six insiders tell you their daughters are getting married, the company may be in trouble. *Pam Black*

The Insider Scoop

BUYING A recent hire who buys shares may just be showing solidarity for the corporate team. But if longtime executives snatch up shares simultaneously, that's usually a sign the stock is trading at a good value.

If the stock price has been dropping and insiders suddenly start buying, they're probably anticipating a turnaround and want to get in at the bottom.

SELLING An insider might unload a big block of shares for any number of personal reasons—to raise cash for a new house or diversify a portfolio. But if several insiders sell as the stock is falling, that's often a sign of bad news ahead.

Insiders who sell when the stock is rising might be taking profits. But they're not necessarily any better at timing peaks than other investors. So you might simply want to monitor the situation.

EXERCISING OPTIONS When insiders cash in options and sell at a slight profit, they may think the stock is on its way down. When they exercise a lot of options and hold on to the stock, they're often expecting a rise.

DATA: BUSINESS WEEK

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CDA/INVESTNET (800 243-2324) publishes a weekly newsletter, *Insiders' Chronicle* ($375 a year). Or you can tap into its database by computer ($2 a minute).

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DATA: BUSINESS WEEK

TREASURE ISLANDS FOR MUNICIPAL BONDS

Most Americans think of Puerto Rico and the U. S. Virgin Islands as places to take a Caribbean vacation. But these American territories, along with farther-afield Guam and American Samoa, have financing needs, like any other independent state. That means they must issue bonds. And, as it turns out, their munis can be very useful for fixed-income investors on the mainland. This month, when many states' tax-free bonds are maturing or being called and when new issues are scarce, it may pay to go bond shopping in the islands.

The appeal of bonds from U. S. territories derives from their special tax status: They are always exempt from federal, state, and local taxes —no matter where you live in the U. S. Their credit markets are also remarkably stable—especially Puerto Rico, which dwarfs the other territories in the volume of bonds issued. Puerto Rican bonds are always in demand, since investors all over the U. S. can use them in their tax-free portfolios. Even the proliferating single-state mutual funds regularly buy Puerto Rican debt for diversification, and this helps keep the market buoyant. "Though investing in Puerto Rico sounds obscure, it is not obscure at all," says Sheila Amoroso, portfolio manager of Franklin Puerto Rico Tax-Free Income Fund, the only U. S.-territory mutual fund. The fund, which also holds bonds from Guam and the Virgin Islands, has returned an average of 7.53% for the past five years.

HEIDI YOUNGER

SMART MONEY

Almost any investor with a portfolio of tax-free bonds may want to consider Puerto Rico's debt. For one thing, the bonds add diversification. They are also very liquid. "They are part of a conservative approach" to tax-free investing, says John Flahive, vice-president and head of the municipal-bond department at Mellon Private Asset Management in Boston.

MOVABLE BEAST. The downside is that Puerto Rico's debt doesn't come cheap. You'll probably have to give up about 10 basis points of yield to buy its top-rated paper, compared with other AAA-rated munis. But it's worth it, says Flahive. "To have the stability and the diversification and give up some additional yield seems very prudent to us," he says. Besides, even if you pay a bit more, you should be able to sell Puerto Rican paper for at least what you paid for it, since there is a strong secondary market and the price should remain above other issues.

When to Buy Munis From U.S. Territories

- If you expect to move to another state in a few years
- If your state doesn't exempt its own bonds from state and local taxes
- If the kind of bond you're looking for isn't available at home
- If you want to diversify a portfolio of local bonds

DATA: BUSINESS WEEK

Bonds from U. S. territories can prove particularly handy in a few specific situations. For example, young executives who expect to be transferred in a few years can rest assured that their munis will continue to be tax-free, no matter what state they move to. When structuring portfolios to meet future college costs, Peter Frisch, a financial adviser at Prudential Securities in Boston, has used zero-coupon bonds from Puerto Rico in combination with growth stocks for clients who expect to move around while climbing the corporate ladder.

Puerto Rico's bonds are also attractive to people who live in the handful of states, such as Illinois, Iowa, Oklahoma, that tax mos their homegrown debt. example, an Oklahoma r dent purchasing AA-ra Oklahoma City bonds yi ing 4.5% would have to 5% of that in state bringing the aftertax y down to 4.27%. That pe could buy a BAA-rated b from Puerto Rico that y 4.5% tax-free come out ah That's not ne sarily the best tion, however, s you may be be off going to a s other than the you live in, fin a cheaper b and paying state tax, says drew Goldstei bond trader Stoever Glass New York.

In general, you sh consider bonds from U territories only after s ping around at home— then you would be well vised to stick with top- ed insured bonds, says rick Retzer, director fixed-income at Heartl Funds. "If an investor an issue in their state t are familiar with, I w lean toward buying that, says, mainly because i easier to monitor.

But with local bonds s times hard to come by with cash coming in f holdings that have mat or that have been called, may find that Puerto Ric the Virgin Islands could h a place in your tax-free p folio, even if not in your v tion plans. *Amey S*

WORTH NOTING

■ **EQUAL ACCESS.** The Council of Better Business Bureaus' Foundation has released three new guides in a series to help small businesses comply with the Americans With Disabilities Act. Aimed at travel agencies, shops, and professional offices, the new, 26-page *Access Equals Opportunity* booklets are available from your local BBB or by sending $2.50 for each to CBBBF, Suite 800, 4200 Wilson Blvd., Arlington, Va. 22203.

■ **GOLDEN YEARS.** Get sound and lighthearted retirement-planning advice fro *Ready, Set, Retire!*, a 200-page paperba written by financial planner J. William Brimacombe. Call John Hancock Financ Services at 800 828-7081, ext. 221, for a free copy.

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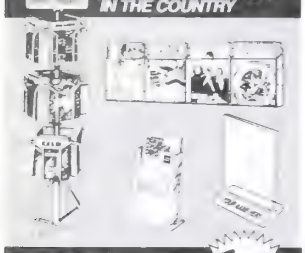

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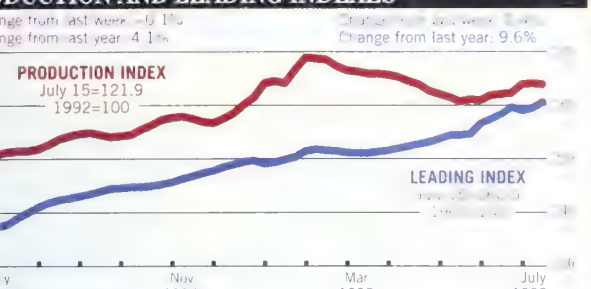
DUCTION AND LEADING INDEXES



roduction index was nearly unchanged in the week ended July 15. The before calculation of the four-week moving average fell to 120.5, from . Declines in the seasonally adjusted output of autos and trucks offset a in electric power caused by the extremely hot weather across much of S.

eading index increased in the latest week. The unaveraged index also to 262.1 from 260.6. Higher stock prices and faster growth in materials powered the gain.

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (7/22) thous. of net tons	1,858	1,926#	1.7
AUTOS (7/22) units	103,724	39,936r#	-4.5
TRUCKS (7/22) units	91,662	14,573r#	-5.1
ELECTRIC POWER (7/22) millions of kilowatt-hrs.	73,314	74,370#	2.3
CRUDE-OIL REFINING (7/22) thous. of bbl./day	14,372	14,540#	0.9
COAL (7/15) thous. of net tons	19,201#	15,563	9.4
PAPERBOARD (7/15) thous. of tons	892.3#	879.9r	2.4
PAPER (7/15) thous. of tons	820.0#	831.0r	2.8
LUMBER (7/15) millions of ft.	413.8#	232.3	-7.9
RAIL FREIGHT (7/15) billions of ton-miles	23.3#	19.5	7.9

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Forest & Paper Association, WWPA[1], SFPA[2], Association of American Railroads

DING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
K PRICES (7/21) S&P 500	555.86	558.75	22.6
ORATE BOND YIELD, Aaa (7/21)	7.48%	7.26%	-7.2
STRIAL MATERIALS PRICES (7/21)	115.0	115.5	NA*
NESS FAILURES (7/14)	NA	NA	NA
ESTATE LOANS (7/12) billions	$491.5	$489.4r	12.6
Y SUPPLY, M2 (7/10) billions	$3,670.0	$3,664.8r	2.5
AL CLAIMS, UNEMPLOYMENT (7/8) thous	399	367r	9.3

es: Center for International Business Cycle Research (CIBCR), Standard & Moody's, *Journal of Commerce* (index: 1990=100), Dun & Bradstreet (failures e companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on ss failures and real estate loans. *Historical data available from CIBCR

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (7/26) $/troy oz.	386.000	390.450	0.0
STEEL SCRAP (7/25) #1 heavy, $/ton	140.50	140.50	19.6
COPPER (7/22) ¢/lb.	141.3	145.9	19.6
ALUMINUM (7/22) ¢/lb.	90.0	87.0	23.3
COTTON (7/22) strict low middling 1-1/16 in., ¢/lb.	91.47	96.75	27.3
OIL (7/25) $/bbl.	17.11	17.34	-12.0

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX

EREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
RAL FUNDS (7/25)	5.73%	5.67%	4.28%
MERCIAL PAPER (7/25) 3-month	5.81	5.76	4.73
IFICATES OF DEPOSIT (7/26) 3-month	5.75	5.73	4.70
) MORTGAGE (7/21) 30-year	7.95	7.64	8.71
STABLE MORTGAGE (7/21) one-year	5.95	5.78	5.63
E (7/26)	8.75	8.75	7.25

es: Federal Reserve, HSH Associates, Reuters Holdings PLC

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (7/26)	88.01	87.74	100.35
GERMAN MARK (7/26)	1.39	1.39	1.59
BRITISH POUND (7/26)	1.60	1.60	1.53
FRENCH FRANC (7/26)	4.82	4.83	5.44
ITALIAN LIRA (7/26)	1595.5	1621.0	1597.6
CANADIAN DOLLAR (7/26)	1.36	1.36	1.38
MEXICAN PESO (7/26)	6.105	6.050	3.396

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars

data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense ent. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

ONAL INCOME

ay, July 31, 8:30 a.m. ▶ Personal e probably rose 0.6% in June, says edian forecast of economists surveyed s International, one of The McGraw- ps. Income fell 0.2% in May, but job in June erased the drop. June con- spending likely increased 0.5%, 0.7% jump in May. Upward revi- to retail sales suggest that consumer ases grew modestly last quarter.

TRUCTION SPENDING

ay, Aug. 1, 10 a.m. ▶ Building out- kely rose 0.4% in June, after falling in May. That's indicated by an se in single-family housing starts.

NAPM SURVEY

Tuesday, Aug. 1, 10 a.m. ▶ The business activity index compiled by the National Association of Purchasing Management probably stood at 47% in July, after slipping to 45.7% in June.

LEADING INDICATORS

Wednesday, Aug. 2, 8:30 a.m. ▶ The government's composite index of leading indicators likely rose 0.3% in June. If so, that would be the index' first rise this year.

NEW HOME SALES

Wednesday, Aug. 2, 10 a.m. ▶ The MMS survey forecasts that sales of new single-family homes fell to an annual rate of 673,000 in June, following a 19.9% surge in May that pushed sales up to a 722,000 pace.

FACTORY INVENTORIES

Thursday, Aug. 3, 10 a.m. ▶ Factory inventories likely rose 0.3% in June, half of the 0.6% increase in May. That's suggested by flat factory output in June.

EMPLOYMENT

Friday, Aug. 4, 8:30 a.m. ▶ The MMS survey forecasts that nonfarm payrolls probably grew by 140,000 in July, after a 215,000 gain in June. Factory jobs, however, are expected to decline for the fourth month in a row. Unemployment likely rose to 5.7% in July, from 5.6% in June.

Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company, plus a stock symbol where appropriate. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A

Abbott Laboratories (ABT) **28**
A. B. Data Group **37**
Acer **48, 64**
Acuson (ACN) **74**
Adam Opel (GM) **44**
Addison-Wesley **22**
Aerospatiale **67**
A.G. Edwards (AGE) **58**
Alex. Brown **62**
Alliance Gaming (ALLY) **34**
American Airlines (AMR) **25, 58**
American Express (AXP) **22**
American Maize-Products (AZE) **31**
American Velvet **30**
America Online (AMER) **32**
Amgen (AMGN) **29**
Apollo Group **62**
Apollo Real Estate Advisers **61**
Apple (AAPL) **48, 64**
Archer Daniels Midland (ADM) **31**
AST Research (ASTA) **40**
AT&T (T) **4, 48, 64, 84**

B

Bally Gaming (BGII) **34**
Banc One (ONE) **27**
Bank of America (BAC) **27**
Bank of Boston (BKB) **27**
Bantam Doubleday **22**
Barclays de Zoete Wedd **38**
Baxter's Books **22**
Bear Stearns (BSC) **74**
BellSouth (BLS) **4**
Beverly Enterprises (BEV) **68**
Boeing (BA) **25, 48, 64**
Boston Co. **62**
Bristol-Myers Squibb (BMY) **28**
Broderbund (BROD) **70**
Brown Book Shop **22**
Brown Bros. Harriman **58**

C

Cablevision of Greater Beloit **52**
Canon (CANNY) **48, 64, 72**
Capital Connections **6**
Capital North **6**
CDA/InvestNet **74**
Chartered Semiconductor **48**
Chipcom (CHPM) **74**
Chrysler (C) **4**
Ciba-Geigy **72**
Cirrus Logic (CRUS) **48, 64**
Citibank (CCI) **18, 59**
Columbia Pictures **32**
Community Bank System (CBSI) **62**
Compaq (CPQ) **6**
Composite Optics **67**
CompUSA (CPU) **70**
CompuServe (HRB) **32**
Continental Airlines (CAI.A) **25**
CoreStates Financial (CFL) **27**
CPC International (CPC) **31**
CSC Index (CSC) **22**

D

Daimler Benz (DAI) **45**
Dataquest **48, 64**
Dean Witter (DWD) **18, 68**
Dean Witter Discover (DWD)
Delta Air Lines (DAL) **25**
Disney (DIS) **34**

E

Eastman Kodak (EK) **72**
Edmark (EDMK) **70**
Edward D. Jones **58**
Electronic Data Systems (GM) **6**
Elliott Bay Book **22**
Encore **34**
Ericsson (ERICY) **48, 64**
Eridania Beghin-Say **31**
ESPN **72**
Excell Agent Services **6**

F

Farrar Straus & Giroux **22**
First Chicago **58**
First Fidelity (FFB) **27**
First Union (FTU) **27**
Fleet Financial (FLT) **27**
Forrester Environmental **67**
Forstmann-Leff Associates **62**
Forward Concepts **48, 64**
Fujitsu **48, 64**

G

Gannett (GCI) **34**
Gemini Consulting **22**
General Motors (GM) **9, 44, 72**
Genesis Merchant Group Securities **68**
Georgia Gulf (GGC) **74**
Giant Telecommunications **34**
Gillette (G) **72**
Glaxo Wellcome **28, 34**
Goldman Sachs **58**
Guthy-Renker **4**

H

Heartland Funds **76**
Heidrick & Struggles **4**
Hewlett-Packard (HWP) **38, 48, 64**
Hillhaven (HIL) **68**
Hiram Walker **72**
Hitachi (HIT) **48, 64**
Hoffmann-La Roche **29**
Hongkong & Shanghai Banking (HSBC) **59, 62**
Hormel Foods (HRL) **4**
Host Marriott (HMT) **62**
HSBC Holdings **59**

I

IBM (IBM) **32, 48, 64**
IdeaFisher Systems **14**
Insource Management Group **6**
Insta-Care Holdings **68**
Integrated Health Services (IHS) **68**
Intel (INTC) **48, 64**
Interlingua **40**
International Management Group **72**

J

James Capel Pacific **38**
Jardine Matheson **45**
J. P. Morgan Securities (JPM) **25**

K

Kiwi International Airlines **9**
Kobe Steel **48, 64**
Krupp **67**

L

Lehman Brothers Japan **38**
LG **40**
Liberty Investment Management **68**
LSI Logic (LSI) **48, 64**

M

Manor Care (MNR) **68**
Marine Midland Bank (MMB) **59, 62**
Market Profile Theorems **74**
Marriott International (MAR) **62**
MasterCard **72**
Matsushi **48**
Matsushita (MC) **40, 64**
MCA **40**
McDonald's (MCD) **72**
McGraw-Hill (MHP) **14, 22, 67, 81**
MCI (MCIC) **4, 34, 84**
Mellman Group **37**
Mellon Bank (MEL) **27**
Mellon Private Asset Management (MEL) **76**
Merck (MRK) **28**
Merrill Lynch (MER) **58, 61**
Microsoft (MSFT) **14, 32, 74**
Midland Bank **59**
Millenium Pharmaceuticals **29**
Mitsubishi **48, 64**
MMS International **81**
Morgan Stanley (MS) **59**
Motorola (MOT) **48, 64**
Multimedia (MMEDC) **34**
Mutual Series Group **62**

N

National Software Testing Laboratories **14**
NationsBank (NB) **27**
NatWest Securities **59**
NEC (NIPNY) **48, 64**
New World Communications (NWCG) **4**
New York Times (NYT.A) **22**
Nike (NKE) **72**
Nissan (NIS) **38**
Nokia **48, 64, 72**
Northwest Airlines (NWAC) **25**

O

Oki Electric (OKI) **48, 64**
Oklahoma Health Systems **6**
Olympus **72**
O'Melveny & Myers **61**

P

Packard Bell **14**
PaineWebber (PWJ) **61**
Paragon **22**
Paramount Pictures **32**
Pearson **22**
PepsiCo (PEP) **72**
Perot Systems **6**
Pexco Holdings **31**
Pfizer (PFE) **28**
Pharmacy Corp. of America **68**
Philip Morris (MO) **72**
Plasma Energy **67**
Porter Felleman **31**
Prime Sports (NWS) **72**
Procter & Gamble (PG) **28**
Prudential Securities **76**
Putnam **58**

R

Rado Uhren **72**
Rand **18**
Reebok **72**
R.J. Reynolds (NA) **72**
Roca Foods **30**

S

Salant (SLT) **62**
Samsung Electronics **40, 4**
San Diego Technical Books
SCI Capital Management **1**
Seafirst (BAC) **70**
Sears (S) **32, 62**
Sharp **48, 64**
Shawmut National (SNC) **2**
Showtime **34**
Siemens **48, 64**
SKF Steel **67**
Smith Barney (SBSH) **4, 34**
Sony (SNE) **38, 48, 64, 72**
Southwest Airlines (LUV) **25**
Sprint (FON) **4, 34, 84**
Standard & Poor's **48**
Star TV (NWS) **72**
Stoever Glass **76**
Sybase (SYBS) **74**
Synetic (SNTC) **68**

T

Taiwan Semiconductor **48**
Tele-Communications (TCOMA) **34**
Texas Instruments (TXN) **48**
The Library Ltd. Bookstore **2**
Toshiba **48, 64**
Trustco Bank **62**
Twinstar Semiconductor **48**

U

UAL (UAL) **25**
UBA Asset Managaement **6**
Upjohn (UPJ) **28**
USAir (U) **25**

V

ValuJet Airlines (VJET) **25**
Viacom (VIA.B) **34**
VLSI **48, 64**

W

Westinghouse (WX) **67**
Wilmington Trust (WILM) **8**
Winrock-Houston **61**
Winthrop Financial Associat
WMX Technologies (WMX) **4**

Y

Yonex **72**

Z

Zenith Electronics (ZE) **40**

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25. Technology
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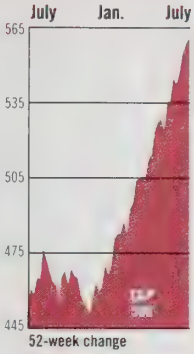
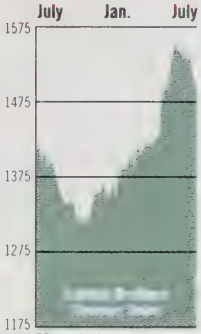
STOCKS



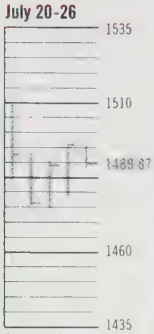
52-week change
+24.1%

1-week change
+1.9%

BONDS

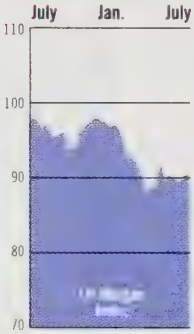


52-week change
+7.4%



1-week change
-0.2%

THE DOLLAR



52-week change
-7.1%

1-week change
0.0%

T ANALYSIS

S	Latest	% change Week	52-week
DUSTRIALS	4707.1	1.7	26.5
PANIES (S&P MidCap Index)	205.2	3.2	22.4
NIES (Russell 2000)	296.1	3.1	22.3
ES (Russell 3000)	321.1	2.3	23.8
OCKS	**Latest**	**% change (local currency) Week**	**52-week**
NCIAL TIMES 100)	3454.3	1.4	12.1
INDEX)	16,387.3	-0.2	-18.6
COMPOSITE)	4601.9	-0.1	11.3

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	5.61%	5.55%	4.54%
30-YEAR TREASURY BOND YIELD	6.88%	6.86%	7.61%
S&P 500 DIVIDEND YIELD	2.38%	2.42%	2.79%
S&P 500 PRICE/EARNINGS RATIO	16.6	16.6	18.7
TECHNICAL INDICATORS	**Latest**	**Week ago**	**Reading**
S&P 500 200-day moving average	495.1	492.5	Positive
Stocks above 200-day moving average	74.0%	72.0%r	Negative
Speculative sentiment: Put/call ratio	0.65	0.55	Neutral
Insider sentiment: Vickers sell/buy ratio	1.76	1.70	Positive

BLOOMBERG FINANCIAL MARKETS

RY GROUPS

LEADERS	% change 1-month	12-month	Strongest stock in group	% change 1-month	12-month	Price
	16.1	34.4	REYNOLDS METALS	17.8	14.4	59½
E AND TOOLS	11.8	27.2	BLACK & DECKER	14.5	73.3	32½
	9.9	5.5	INCO	21.2	20.6	33⅝
S	9.9	20.4	CONRAIL	11.9	12.4	61¼
RETAILERS	9.2	4.8	LOWE'S	22.0	2.9	36
LAGGARDS	**% change 1-month**	**12-month**	**Weakest stock in group**	**% change 1-month**	**12-month**	**Price**
AS DRILLING	-6.0	-7.3	ROWAN	-8.1	-18.6	7⅛
DING	-5.7	7.9	PULTE	-11.8	13.5	25¼
D PRODUCTS	-4.7	27.7	COLGATE-PALMOLIVE	-10.0	30.0	67⅜
E INSURERS	-4.3	17.2	AMERICAN INTERNATIONAL GROUP	-5.7	20.4	110
PHY/IMAGING	-4.3	21.3	EASTMAN KODAK	-4.8	21.0	59⅞

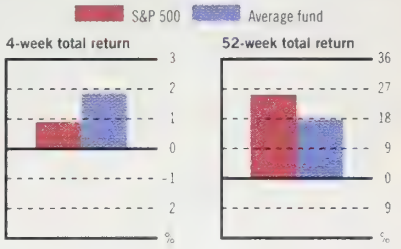
L FUNDS

MORNINGSTAR INC

tal return	%
QUIFUND-MEXICO	19.1
TIN AMERICA A	11.5
ATIN AMERICA	11.0
l return	**%**
COMMUNICATIONS & INFORM. A	112.2
SELECT ELECTRONICS	95.2
TECHNOLOGY A	92.3

LAGGARDS

Four-week total return	%
STEADMAN OCEANOGRAPHIC TECHNOLOGY	-8.3
STEADMAN INVESTMENT	-4.8
CENTURY SHARES	-3.4
52-week total return	**%**
AMERICAN HERITAGE	-32.7
STEADMAN OCEANOGRAPHIC TECHNOLOGY	-29.8
STEADMAN AMERICAN INDUSTRY	-26.4



VE PORTFOLIOS

DRI/McGRAW-HILL

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indicate
l returns

U.S. stocks	Treasury bonds	Foreign stocks	Money market fund	Gold
$12,654	$11,667	$10,936	$10,530	$10,044
+0.47%	+0.72%	-0.34%	+0.13%	-0.44%

page are as of market close Wednesday, July 26, 1995, unless otherwise indicat-
ups include S&P 500 companies only; performance and share prices are as of mar-
ket close July 25. Mutual fund returns are as of July 21. Relative portfolios are valued as of July
25. A more detailed explanation of this page is available on request. r=revised NA=Not available

THE STATES: TIME FOR A REALITY CHECK

Devolution is to the '90s what Power to the People was to the '60s—an antiestablishmentarian crusade to decentralize power from Big Government.

As a concept, devolution is definitely cool. It is a creative way of using the innovation and flexibility available at the state level to achieve national objectives, such as moving to workfare from welfare. And pushing political decision-making down to state and local levels brings it closer to individuals and families (page 40).

If it works. Much of the very worst government in America exists precisely at the state and local levels. As Congress prepares to shift responsibilities for welfare, Medicaid, transportation, job training, and the environment to the states, a reality check is necessary. Special interests dominate many state legislatures—a situation often leading to corruption. The municipal bond business, for example, has been wracked with scandal, in sharp contrast to the Treasury bond business, which is squeaky clean by comparison. And when it comes to spending taxpayer largesse, Washington has nothing on state and local governments. Public-employee unions are wringing higher compensation out of local politicians than any raises obtained by private-sector workers. The largest number of people left getting virtually free medical care in the U.S. are state and local public employees. Everyone else pays a share.

Most states have a miserable track record when it comes to actually managing programs. Who, after all, made such a mess of public education in this country? In New York, state politicians use local school boards as wards, exchanging public money and jobs for votes. In Florida, efforts to move state Medicaid patients into health-maintenance organizations add up to a tale of corruption and mismanagement. Illinois used federal job training block-grant funds to pay a ca wash for six months to train people. Mississippi state officia used block-grant money intended for child care to buy $37.5 salt-and-pepper shakers for themselves. It goes on and on.

Radical conservatives in Congress who are hyping devolutic as a means of shutting all government at the federal level don want to hear these facts. As a result, rhetoric is coloring wh should be a rational debate over which government functior are better served at the state level and which at the nation level. The political hype is generating suspicion that the enti effort is a shell game by national politicians to shift the burde of cutting the federal budget to the states. By capping bloc grants for social-spending programs such as job training ar Medicaid, Congress gets the states to do its dirty work. Trut is, most states don't yet have either the financial or manager al resources to jump in and run the programs.

This is precisely what's worrying many state leaders. Go ernors such as Christine Todd Whitman (R-N.J.) and Tomm G. Thompson (R-Wis.) know that it actually costs more mor ey initially to get people off welfare. They want to have th resources to continue experimenting with reform.

These progressive governors also realize that the impend ing revolutionary shift in power will dump an enormous bu den on the states in an extremely brief period of time. I quick order, the states will be expected to solve the same so cial problems that Washington has struggled with for decade It won't be easy.

If Congress can punch through the extremist rhetoric su rounding devolution and turn a pragmatic eye toward wh has a serious chance of working, the nation stands to b served extremely well in the months ahead. If it doesn' devolution will fail.

HOW NOT TO DEREGULATE TELECOM

The free market is a grand thing, guaranteeing lots of choice at low prices—providing, that is, that markets are really free. Deregulation-minded members of Congress are trying to open up the $1 trillion communications industry. But the latest House version of the bill could have the opposite effect: unregulated local phone monopolies able to stifle emerging rivals with their market clout.

One hesitates to criticize any effort to overhaul the telephone, cable, and broadcasting regulations. Five times in the past 10 years, Congress has tried and failed to modernize the 1934-vintage telecommunications law. This time, insiders are laying 8-to-1 odds that legislation will be ready for President Clinton's certain signature this fall. Ideally, the result would be a free-for-all, with local phone companies, long-distance carriers, and cable-TV operators contesting one another's business. The House bill, though, would let the seven Baby Bells that now control 98% of their markets stop such a scramble dea

The Bells would be able to apply for long-distance entry si months after the bill becomes law. They would have to prov only that competition for local service exists, not that it's sig nificant. Companies that want to offer local phone servic with little time to build their own networks, will have to bu from the dominant regional Bell and then resell. And ther will be few controls on the price the Bells charge for that ca pacity. In sharp contrast, Bell companies wanting to rese long-distance capacity will have three huge suppliers—AT&T MCI, and Sprint—to choose from and bargain with. The Bab Bells will also be able to cross-subsidize their long-distanc business with local profits just 18 months after entry.

If Congress really wants a free phone market, with th competition and lower prices that come with it, it shouldn't b quite so generous to those local monopolists, the Baby Bell

FITS FULL SECOND-QUARTER RESULTS FOR 900 COMPANIES STRATEGIES ▶CHASE ▶CASE CARS A COMPUTER IN THE DRIVER'S SEAT

BusinessWeek

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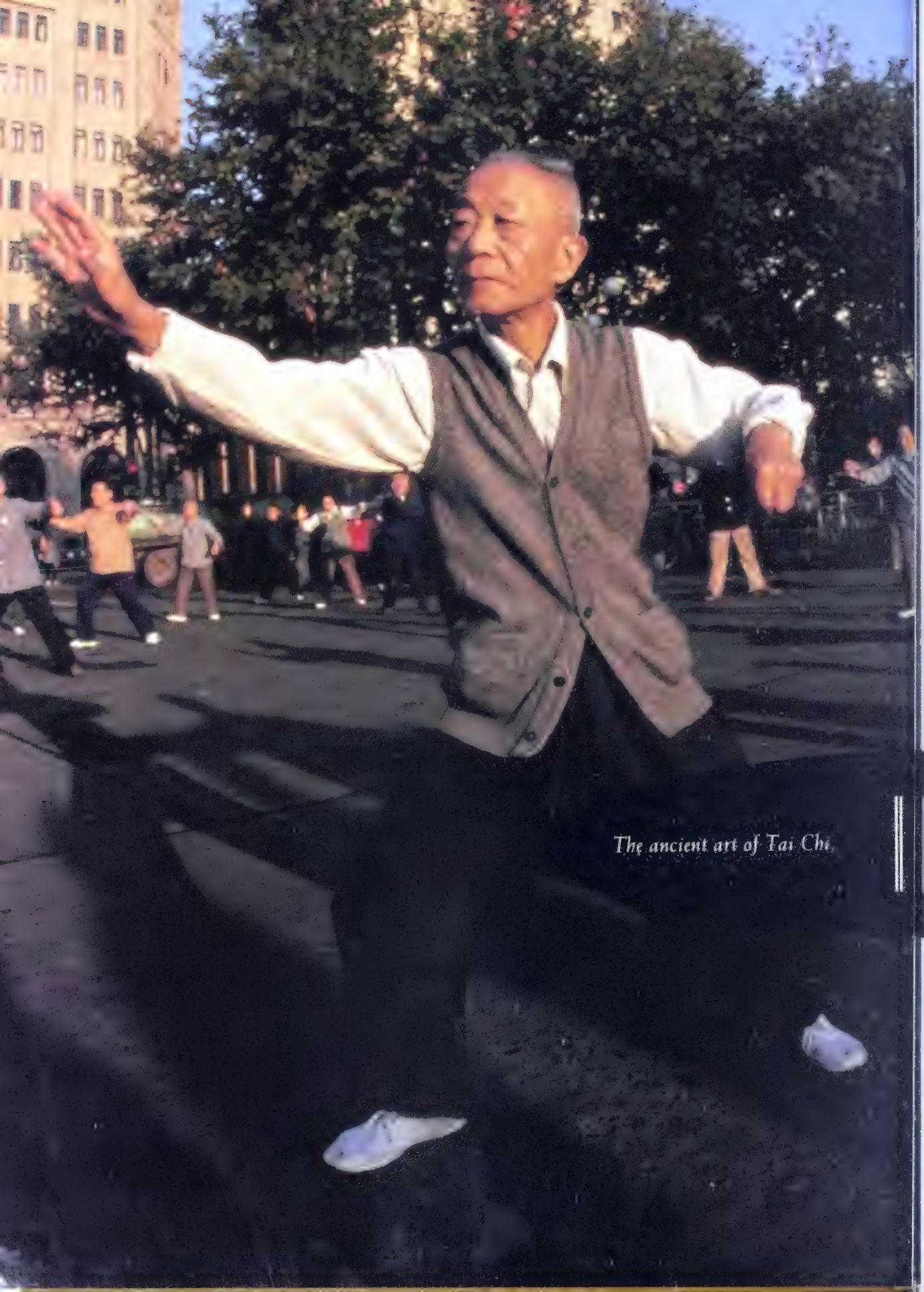
DISNEY'S KINGDOM

Can Michael Eisner Dominate the New Entertainment Economy?

PAGE 30



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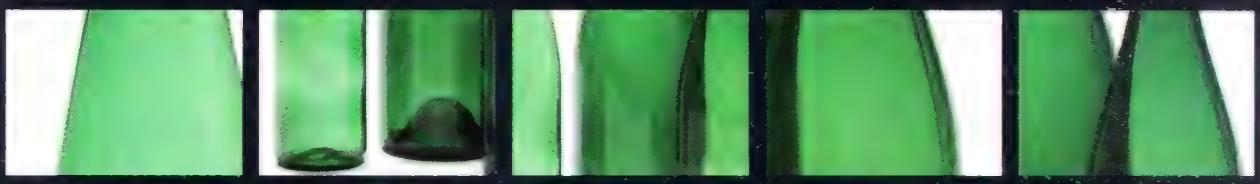
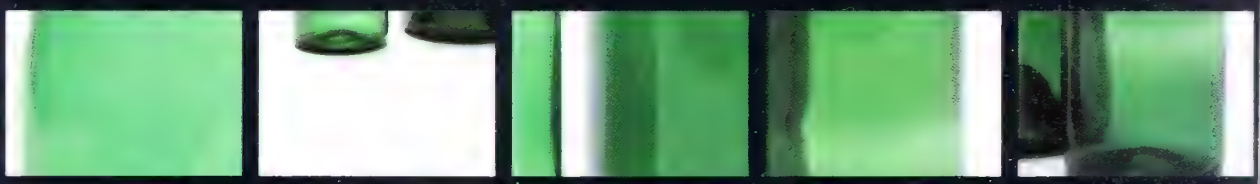


HQ's database has 40,000 bottles.



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BusinessWeek

AUGUST 14, 1995

DISNEY'S KINGDOM
From programming to investments to magazines, ABC has the assets that Eisner needs to realize his vision page 30

Cover Story

30 DISNEY'S KINGDOM
"It sounds funny, but I'm thinking about the millennium change," says Michael Eisner. Indeed, with a single move, he has shifted the balance of power in America's fastest-growing industry. If he can mesh Disney and ABC, the result could be the most powerful player in the entertainment economy

35 NOW THAT'S ENTERTAINMENT
Both domestically and abroad, the industry is booming—and the latest megadeals should speed growth

37 COMMENTARY
Are all these media mergers as bad as critics say? The worries could be just a lot of static

News: Analysis & Commentary

40 GUESS WHO'S GUNNING FOR THE SEC
GOP regulation-busters surprise the agency with an attack on its powers

41 THE UNMASKING OF A BEST-SELLER
An exposé has *The New York Times* reevaluating its list

42 MEGA-UNIONS: MEGA-MUSCLE?
The merger of three major industrials signals a new future for labor

44 SPIN-OFF MANIA, TOO
The behemoths are discovering that tax benefits and high share prices can make the spin-off a smart move

46 GM: THE 1995 MODEL
Its new restructuring is supposed to simplify. It may do the opposite

48 THE SOUND AND THE FLUORIDE
New brands, backed up by salvos of advertising, have the once-stable toothpaste market in a lather

50 IN BUSINESS THIS WEEK
Class action on Wall Street. USAir, Johnson & Johnson, Caterpillar, MCI, Louisiana-Pacific, the new CIA head

International Business

52 JAPAN
Support is growing for a taxpayer-backed makeover of the financial system

54 CHINA
How do you handle a waking dragon? Neither Western confrontation nor Asian diplomacy is working

55 THE NETHERLANDS
Jan Timmer has turned around P[illegible] chip operation—but is it healthy [illegible] to be the focus of a growth strate[illegible]

56 RUSSIA
Gangs are resorting to murder in [illegible] effort to take over legitimate bus[illegible]

58 INTERNATIONAL OUTLOOK
Woes mount for Spain's Socialists whose long rule may be ending

Economic Analysis

22 ECONOMIC VIEWPOINT
Roberts: Establishment players—[illegible] close allies in government—were [illegible] Mike Milken's downfall, says one [illegible]

26 ECONOMIC TRENDS
Drug treatment, speed limits, bia[illegible] car-buying, global mergers

27 BUSINESS OUTLOOK
The second quarter wasn't so bad[illegible] the second half may be even bett[illegible]

Government

51 WASHINGTON OUTLOOK
The U.S. walks out on a global fi[illegible] pact, trusting market forces inste[illegible]

THE LAWS OF SCIENCE

Cases involving scientific claims are getting a grilling in court page 76

DRIVE, IT SAID

A trip through Kansas with Ralph, the silicon chauffeur page 80

RESCUE TIME?

A credit-union failure stirs bank bailout talk in Japan page 52

R SIEGE

Bank stockholders are over profitability page 66

HOT NUMBERS

Second-quarter corporate profits: Still smokin' page 88

MENTARY
e Minority Leader Dick Gephardt great program—for the '30s

ial Issues

RSITY: BEYOND THE NUMBERS
ining and promoting minorities

Corporation

AL COMEBACK' AT CASE
eco's money-losing tractor maker itself out from way under

ance

E: UNDER SIEGE AGAIN
bank needs to get profitability on to placate frustrated investors

RT CARDS, SMART CHOICES
in Europe and Asia, they're finally ing on in the U.S.

ONCE, IT'S TIME TO BUY RETAIL
ains in department-store stocks

PROFILE FOR THE PROSPECTUS
l investors may soon see a shorter, ful graphic alternative

STMENT FIGURES OF THE WEEK

74 **INSIDE WALL STREET**
Hungry for a bite of Warner-Lambert
Kids may warm Burlington up
Nordic ripples from Disney's deal

Legal Affairs

76 **PUTTING SCIENCE ON TRIAL**
The high court's tougher rules have made lawsuits hard to win

Science & Technology

79 **DEVELOPMENTS TO WATCH**
Analog disks, high-tech sunblock, helping hip implants last, greaseless bearings that are nearly friction-free

80 **LOOK, MA—NO HANDS!**
The smartest car yet takes BUSINESS WEEK on a historic test drive

Information Processing

18 **TECHNOLOGY & YOU**
What to look for in computer retailers, from superstore to mom-and-pop shop to mail-order catalog

82 **BIG BREAK FOR SMALL OPERATORS?**
If proposed legislation passes, tiny long-distance carriers could really score

Corporate Scoreboard

88 **SECOND-QUARTER PROFITS**
Even as the overall economy landed with a near-thud, profits kept rolling in for cyclicals, airlines, and computers. In Detroit, GM outshone Ford and Chrysler

90 **CAPITAL SPENDING IS AT A CANTER**
As the economy slows, so do expenditures. But they're still healthy—especially in new information technology

Personal Business

108 **SLEUTHING:** How to find lost persons
SLEUTHING: Climbing a family tree
SMART MONEY: Japan's mutual funds

Features

6 **UP FRONT**
10 **READERS REPORT**
16 **BOOKS**
Eichenwald: *Serpent on the Rock*
111 **BUSINESS WEEK INDEX**
112 **INDEX TO COMPANIES**
114 **EDITORIALS**
The expanding entertainment universe
A better way to protect investors

Up Front

EDITED BY LARRY LIGHT, WITH OLUWABUNMI SHABI

TALK SHOW "Is ABC still for sale?" —*Disney's Michael Eisner to Warren Buffett, in Sun Valley, Idaho, July 15*

"Yeah, why not? Go talk to Tom." —*Buffett, largest shareholder of Capital Cities/ABC, headed by Thomas Murphy*

MATCHMAKERS

AND THE TRUE M&A LEADER IS...

WHO'S THE NO. 1 LAW FIRM for mergers and acquisitions work? Two heavyweight New York partnerships have been sparring over that honor for months. In this corner: Shearman & Sterling. In the other: Skadden, Arps, Slate, Meagher & Flom. At stake is the championship for 1994, a brand-new ranking of deals by dollar volume compiled by research outfit Securities Data. It took three tries because, as each new list came out, the No. 2 firm scrambled to supply Securities Data with updated info.

The initial list in March—a preliminary one—showed Shearman on top with $76.2 million from 28 deals, and

Skadden trailing with $69.7 million from 54 deals. "The firms then became more responsive to our survey requests," recalls Securities Data spokesman Richard Peterson. The second ranking, in May, moved Skadden into the lead ($76.1 million; 90 deals), while Shearman's dollar volume dropped ($70.6 million; 30 deals) owing to what it calls miscounting.

For the final, final try, in July, Securities Data gave them both a prize by creating two rankings. Shearman, which worked on such big international pairings as Sandoz-Gerber, is No. 1 for worldwide business ($84.6 million; 46 deals). Skadden is tops for domestic M&A ($79.7 million; 89 deals).

With the cascade of M&A activity lately, such crowns are marketing tools. In discreet lawyerly fashion, though, the firms won't let on that they really care who's No. 1. □

SLUGFESTS

IS BANKRUPTCY A NEW HAFT MEASURE?

HERBERT HAFT WAS ONE worth $200 million—but th was before a family fe splintered his empire. No the patriarch of the Haft cl is seriously considering filing for bankruptcy protectio say family insiders, maybe soon as Aug. 15. That's wh the Dart Group CEO mu cough up $10 million as pa of a divorce settlement wi ex-wife Gloria.

The couple's 1994 split f lowed an ugly fight that p ted Gloria, e est son Robe and daught Linda again Herbert a youngest s Ronald. He bert, who is talking, "ju doesn't ha the money says Dona Bourassa, w runs the family's Combin Properties, a mall operato

HERBERT: *No loan*

In June, Haft tried to bo row $12 million from Dart which includes Trak Aut Crown Books, and Shoppe Food Warehouse—but Dar directors turned him dow say people close to the fami Combined is in bankrupt cutting off another source funds. Haft still bags $800,0 a year from Combined a $3 million from Dart. By f ing for protection, he wou force Gloria onto a long list unsecured creditors.

Gloria could be in for even bigger hit. Transactio to kin within a year of ban ruptcy must be returned. Gloria may have to give ba the $15.5 million Herbert pa to buy out her interest in t family businesses. Of cours in the Byzantine world of t Hafts, Herbert's bankrupt threat may be just a bargai ing chip. *Mark Lewy*

AFTERLIVES

RED POLING: MAYBE No. 2 ISN'T SO BAD

FORD MAN: *Surprised*

FORD'S BIG TALK about trying to topple General Motors as the world's largest carmaker surprises Harold "Red" Poling. When he was Ford's chairman, from 1990 to 1993, that was "never" on his agenda, he says. New chief Alex Trotman wants to boost U.S. market share from 26.3% to 30% by decade's end by cutting into GM's slice. That means outselling GM, which now has 32%, for the first time since 1932.

Poling, a 42-year Ford veteran, warns that such a Herculean goal might backfire. "If you set an objective so far away, people can't visualize it and have difficulty attaining it," he says. Poling, 69, managed to raise Ford's market share during the last recession.

Since retiring, he has been nursing his wife, Marian, who suffered a brain aneurysm last year. With Marian's health improving, Poling, an 8 handicap golfer, hopes to resume their Sunday golf game. A tough-minded trade hawk, he intends to take consulting offers on his areas of expertise: autos and trade. *Keith Naughton*

THE LIST SNOWBIRDS AND SUNBIRDS

Why retire amid the palm trees? The new *Retirement Places Rated*, by David Savageau, says retirees can live well in places where it snows. His index goes beyond climate, measuring such things as home affordability. His last tally, in 1990, had all the Top 10 in the Sunbelt; now, only five are. Then, Fort Myers, Fla., was No. 1. At least No. 1 is still a sunny locale: Vegas.

WINDSURFER: *Skiing next?*

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8	TRAVERSE CITY, MICH.	81.8
9	PHOENIX-MESA-SCOTTSDALE	81.7
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Up Front

A DOLL'S HOUSE

CABBAGE PATCH COMEBACK KIDS

A KID: *Mascot*

UH-OH. THE CABBAGE PATCH Kids are b-a-a-ck. The dimpled dolls, so beloved by children 10 years ago, are trying for a comeback via Mattel. They've got an Olympic tie-in, as OlympiKids, the official mascot of the 1996 U. S. Olympic team. (An undisclosed share of sales will go to the team.) A marketing push will feature a torrent of watches, sunglasses, and T-shirts. As soon as Labor Day, 14-inch dolls clad in athletic gear, from gymnast leotards to warm-up suits, will be at stores—up for adoption. That's right, you "adopt" them, remember?

In their 1985 salad days, some $655 million in Cabbage Patch dolls and paraphernalia were sold. Toy-store riots broke out as desperate parents clamored for the scarce dolls. Cabbage Patch Kids never really went away after that—they just retired to the back of the toy store.

Original Appalachian Artworks, maker of the dolls, once sold them through Coleco, then Hasbro. Now Mattel has created an interactive store display with a TV screen of Cabbage Patch Kids asking young buyers to take them home. Hey, would you rather have Barney? □

FOOD FOR THOUGHT

GROCERS' FRILLS FAIL TO THRILL

VIDEO FARE: *Better at Blockbuster*

SUPERMARKETS, MONUMENTS to consumer goods and convenience, aren't getting many takers for a spate of new offerings. In recent years, they've added such extras as flowers, video kiosks, and catering services. But a survey by the Food Marketing Institute finds that few shoppers partake: Only 11% of supermarket shoppers, for instance, buy videos there. And the other frills are about as popular.

Why? Marketing consultants say people simply aren't comfortable getting some things from a supermarket. Take flowers. People don't think they're fresh at the grocery store, says Chuck Bazemore of Atlantis Group in Atlanta. For videos, the problem is a limited selection that can't compete with video-rental emporiums' variety. Catering by the local supermarket lacks cachet.

Grocers remain hopeful that more and more people will use the extras. They disagree that consumers are staying away. Well, there is one new convenience that consumers like. ATMs at supermarkets, where cash is king, are used almost as much as the ones outside banks. *Hattie Powell*

DRAWN & QUARTERED

SPORTS BIZ

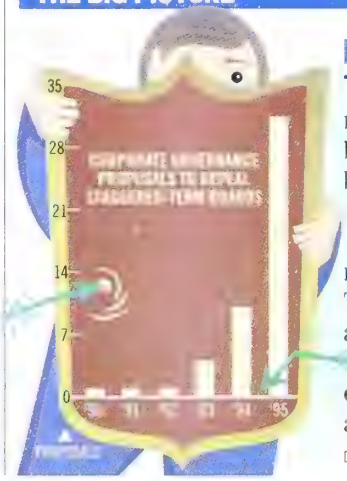
TURNING LANDFILLS INTO LINKS

GARBAGE DUMPS AS FAIRWAYS? Many a golf widow will appreciate the irony, but we're talking here about the increasing trend to convert filled-up landfills into courses. The National Golf Federation counts two dozen—and says more are on the way. One of the most celebrated is the Tournament Players Club at Eagle Trace in Coral Springs, Fla., which opened in 1984. A more recent one is the aptly named Fairwinds Golf Course in Fort Pierce, Fla.

O. K., there's some pretty foul stuff beneath those fair putting greens. But the designers say they can put layers of gravel and plastic sheeting beneath the earth to keep reminders of the old days contained. Controlling methane gas from rotting refuse is another problem. In January, a methane explosion blew out three walls in the clubhouse on a converted landfill in New Hyde Park, N. Y. The early-morning blast injured no one.

Turning landfills into links is a nice revenue enhancer for towns whose dumps top out. But it's not cheap. A conversion can double the average $3 million or so it costs to build a course. A plus: Demand is rising, with the nation's 24 million golfers growing some 5% yearly. *Antonio Fin*

THE BIG PICTURE



DIRECTORS UNDER ATTACK

The hottest cause for investor-rights advocates lately is banning staggered terms for board members. That system protects directors from challengers, who can't replace a board in one shot. This spring, proxy ballots had a surge of resolutions urging that staggered terms be ended. Almost half passed, although they're advisory only.

DATA GEORGESON & CO

FOOTNOTES Insurance claims from pharmacists that went uncollected in 1994: 3% to 5%, or $1 billion

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Readers Report

Due to the unusually large volume of mail we received on our "Wages" Cover Story (July 17), we are devoting this week's entire Readers Report to a sampling of those letters.

WAGES: AN OUTPOURING OF OPINION

As one of the thousands who have been downsized by IBM, your article on wages really hit home. I did not have a great deal of trouble getting a new job, but it pays half what I was paid before, and I have absolutely no benefits. Who am I working for? IBM. In other words, "we need you but not at the salary you were earning after 21 years."

One other thought on the subject: All of the people in my position are paying half the taxes they were paying before. Not great for helping to balance the budget.

Raymon Kent
Apex, N. C.

In the five years prior to my retirement, I watched the company I worked for reduce wages, reduce benefits, essentially eliminate the retirement medical program, subcontract for outside help, institute one-time payments instead of raises, and reduce the company's workforce from 11,500 to 4,400.

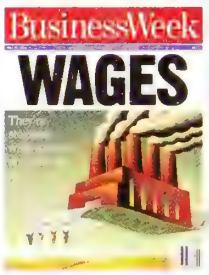
There is much talk about empowerment and feverish activity in quality-improvement programs, but suggestions from employee groups are infrequently implemented, and most basic procedures are unchanged. Sales have stayed essentially the same, and profits are up. The company, of course, points out that productivity, measured as cost per unit sales, has increased. Individual productivity is not mentioned.

In my opinion, morale is low, productivity is low, and loyalty is nonexistent.

Richard M. Sherwood
Amherst, N. H.

I would like to take a different point of view toward your cover story. For once, companies are doing what they have been criticized for not doing in the past: taking the long-term view. Companies are finally considering the value of the employees' contribution. That value must be measured in how any employee's effort translates into sales for the company. Briggs & Stratton cannot pay $21-an-hour wages with benefits to a factory line worker because that worker does not produce a satisfactory return on the wage investment. The value is not there. Even the laid-off worker who fears "she may never earn so much again" suspects that she may have been overcompensated for her efforts.

The answer to all of this is education. An educated employee has the potential (should the employer choose to exploit it) to add value to the task and become more valuable. In my company that is the only yardstick by which we



FUTURE SHOCK?

"'Wages' is not a story of sustainability, or the growth of a strong, healthy nation...cutting binges are leading to what is so aptly termed 'corporate anorexia.'"

ward employees. In this way, an employee can make real gains in income.

Thomas C. Zebot
Colonia, N.J.

I have been an employee in the computer business for going on 30 years now and must admit I do not understand the outsourcing phenomenon one whit. We no longer have stationery stores, so now, when I order a pride ribbon, it's delivered by this guy driving a tractor trailer. I envision him driving from company to company, some paper clips here, some envelopes there. How is it more efficient? Facilities, security, reprographics are all contracted. We

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Ford safety engineer Kenneth Frederick Steve Pegram Wheelwright

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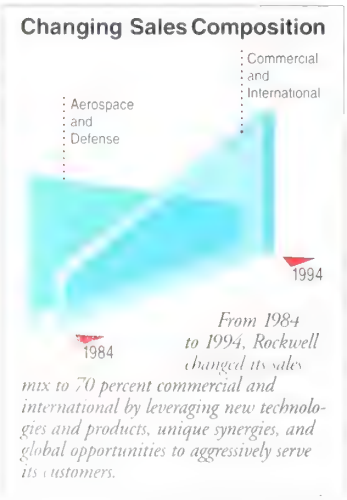

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manufacturing we do locally is done with contractors. Customer service, too, has gone to nonemployees. Our plant looks cruddy, things aren't getting fixed.

What's going on, all the turmoil, has changed me forever. We had a supermarket strike last year, and for the first time ever, I assiduously avoided crossing a picket line. I never thought that I would ever consider joining a union, though I'm white-collar. If Norma Rae ever shows up in front of my plant, I'll sign. This excruciatingly painful time will ultimately backfire on CEOs everywhere. You were right to say that I have become a lot more tight-fisted. My 1989 car is the oldest car I have ever owned. At 47, I'm saving more than ever and worried about my future. Unlike some of the subjects of your article, I am very lucky to have my job.

Stephen P. Huntington
San Jose, Calif.

Perhaps we should ask Corporate America: Hey, pal, can you spare a new minimum wage?

William A. Spriggs
Lakewood, Colo.

"Outsourced—and out of luck," which accompanied your "Wages" Cover Story, states that American Airlines employees at Oakland were terminated in May. In fact, while American has outsourced the work at Oakland, none of our permanent employees there were terminated. American offered all of them a number of options, including relocation and pay protection, a generous voluntary early-retirement program, and extended leaves of absence. Several relocated, others retired or decided to take a leave—but not one was terminated.

Al Comeaux
Corporate Communications
American Airlines
Fort Worth

Your article misses the other side of the equation. If corporate profits are getting fatter, shareholders are now benefiting. When investors have realized gains on their stock, they spend it. They are usually upper income and have different spending patterns, but the money is reinjected into the economy.

Michel Philippart
Danbury, Conn.

The bottom line of your Cover Story, that Corporate America is robbing the bank while workers are left holding the bag, is both inaccurate and unfortunate. The story states that corporate profits are at a 45-year high—true in nominal dollars, but not in inflation-adjusted dollars. In fact, corporate profits in real terms were 10% higher in 1979 than in 1993. The author's statement about corporate profits would not be so misleading had he not gone on to compare these record nominal profits with inflation-adjusted wages and benefits. Obviously, one can choose to make comparisons in real or in nominal dollars, but the two cannot be mixed.

This is not to deny that the process of structural change the economy is undergoing is painful and wrenching for large numbers of workers and their families (and many companies, as well). But setting the interests of Corporate America in opposition to those of workers seems truly bizarre in the pages of your magazine.

Kenneth L. Deavers
Chief Economist
Employment Policy Foundation
Washington

Editor's note: The numbers in the story were based not on profit levels but on the rate of return on capital, which we consider a more accurate measure of profitability. Moreover, since that number is a ratio, and inflation is reflected in both the numerator and the denominator, the effect of inflation is canceled out.

Sadly, "Wages" is not a story of sustainability, or the growth of a strong, healthy nation. Nor is it a story with a happy ending for our growing problem of violent crime. Corporations learned during the '80s how to pay off mountains of debt out of the hides of workers. In the '90s, they're downsizing and reengineering to meet global competition. In truth, the cutting binges are leading to what is so aptly termed "corporate anorexia." And this condition may become terminal for many companies when, as your article points out, their prospective customers lack the wages to buy their products, and companies find they've laid off the workers who know how to get the job done.

William Steinbicker
Minnetonka, Minn.

The U.S. economy boils down to this. Most citizens are not participants. Who will buy your magazine? My house? College grads, if they have a job, are paying their earnings to banks for college loans and to the federal government for Social Security. No cars, no houses on their horizons for some time. People have lost income, wages, benefits, and time off. Pink slips are handed out on Fridays across this country, and a demoralized workforce comes in on Mondays.

Companies move to other states and countries, leaving taxpayers to pick up the wreckage and unemployment compensation. Inflation is important; jobs and wages are not. So-called leaders are planning their golden parachutes, living in gated communities, talking to their brokers, working with campaign finance managers and public-relations advisers. Deregulation, which gave us failed S&Ls and lousy airlines, is back in Congress. No considered legislation will come from this sound-bite Congress, which has invited private lobbies in to write their legislation.

No Hewlett-Packards will be built in this decade. Profits have been privatized. Risks and costs are being picked up by taxpayers. Only 38% of people are voting in our democracy.

The media focuses on cheap news of the O.J. trial, the Susan Smith trial, and they propose 500 channels with no substance whatsoever. Whatever is accomplished in this decade will bubble up from the bottom; it will not trickle down from the top. Our television is off. We are talking to our family, friends, co-workers, and neighbors.

Emilie F. Nichols
Littleton, Colo.

Good story, but you miss the point when you ask how far the "cram down" of earnings will go until the consuming middle class stops buying. Multinationals are trading America's middle class of 200 million-plus for what they believe will be a 1 billion-plus middle class of Third World buyers of their products.

Stephen M. Fo
Houst

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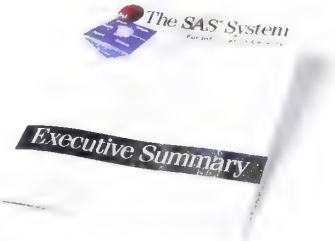
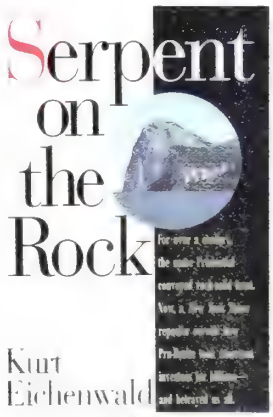


SERPENT ON THE ROCK
By Kurt Eichenwald
HarperBusiness • 480pp • $27.50

HOW GREED POISONED PRU-BACHE

It's funny what you remember from moments of intense work pressure. It was a Wednesday evening in mid-February, 1991, and my colleagues and I were putting the finishing touches on an investigative BUSINESS WEEK cover story, "The Mess at Pru-Bache." The piece, written by Chuck Hawkins, then the magazine's Atlanta bureau chief, would blow the lid off the massive limited-partnership scandal at the troubled firm. As we strained to meet the magazine's closing deadline, we received a news flash: Prudential-Bache Securities Inc. was changing its name to Prudential Securities Inc. It seemed as if the Wall Street giant was abruptly altering its identity just as it was about to be hit by scandal.



Chuck's article proved to be a bombshell that had an enormous impact not only at Pru but also with regulators, investors, plaintiffs' attorneys, and other reporters. One who subsequently began following the story was Kurt Eichenwald of *The New York Times*. Now Eichenwald has published a book-length account of the affair, *Serpent on the Rock*. At 480 pages and rich in detail and insight, it is sure to be the definitive book on the scandal. Indeed, it should be required reading for investors, brokers, and brokerage-firm managers. As Eichenwald says in his prologue: "This is a cautionary tale about an abuse of the investor faith that is an essential building block of the American economy. . . . By taking advantage of that faith, Prudential-Bache cracked the foundation of the marketplace."

That may sound hyperbolic, but by the time you finish reading this book, you will probably decide that Eichenwald is not exaggerating. From 1980 to 1990, Prudential sold $8 billion in limited partnerships. Many of those turned out to be worth far less than the prices they fetched, resulting in hundreds of millions in losses to investors. But the sales were so lucrative for the brokers and the firm that ethical and legal considerations were apparently tossed aside. Meanwhile, across the U. S., small investors, many of them elderly, saw their life savings and hopes for comfortable retirement vanish.

How could Pru have behaved so recklessly? Eichenwald portrays a money-hungry bureaucracy where no one took responsibility for the firm's products. Product development was left to the limited-partnership department, headed by James J. Darr, whose only interest seemed to be in enriching himself. In addition to legally skimming payments off the LPs, Eichenwald says, Darr took money under the table from energy and real estate developers who then became partners for new Pru LPs. One of Eichenwald's most shocking revelations is that Darr is still collecting payments from the LPs.

Darr's boss, George L. Ball, was one of the worst chief executives the securities industry has ever seen. Ball, who had the dubious distinction of pushing a multimillion-dollar check-kiting scheme during his tenure as president of E. F. Hutton, cared little about the quality of Pru's products. His primary concern was for short-term profits that would help stem Prudential Insurance Co.'s losses—profits that the LP sales delivered. After Pru's legal staff reported Darr was on the take, it took Ball nine months to remove him, during which time $500 million more in LPs were sold.

And, as Eichenwald demonstrates, Pru's LP department was a joke: Its products were dogs, and there was virtually no due diligence to ensure that investment ideas were legitimate. Darr intimidated employees into rubber-stamping harebrained projects, such as a fund to buy discounted bank loans secured by oil reserves—loans that never existed. Then department personnel would win over brokers with tales of high rates of return and handsome commissions. Brokers who questioned the LPs' performance were fired. Those who went along got trips to conferences in such places as Hawaii and Scotland.

Despite such systemic abuses, some Pru employees and others behaved heroically. Early in Darr's career at Pru, five limited-partnership professionals met secretly to figure out how to stop Darr. They alerted Pru's legal department, claiming that at his previous job Darr took payoffs from developers. Management ignored the warnings, and Darr soon fired the whistle-blowers. So much for doing the right thing. Federal Judge Marcel Livaudais comes across as equally praiseworthy. Pru tried to get him to approve a class-action settlement that would get the firm off the hook, leave unscrupulous lawyers who helped arrange the deal rich, and pay investors pennies on the dollar. Tipped off by securities regulators from a number of states, Livaudais stopped the settlement.

For investors, the biggest heroes are these state regulators, who took investor complaints seriously and pushed for a $371 million downpayment on an open-ended federal settlement. This tale makes a compelling argument for keeping the system of state securities regulators, which, given the federal Securities & Exchange Commission, is periodically attacked by the brokerage industry as redundant. It ain't.

Serpent on the Rock can be faulted for providing too many details. But the wealth of anecdotes and vignettes provides an important postmortem for a shameful chapter in the history of Wall Street. BUSINESS WEEK broke the story, but Eichenwald's powerful book will ensure that it is not forgotten.

BY LEAH NATHANS SPIRO

Spiro is BUSINESS WEEK's Investment Banking Editor.

EICHENWALD PORTRAYS A FIRM THAT ENRICHED ITSELF BY CASTING ASIDE QUALITY AND ETHICS

BY EDWARD C. BAIG

TIPS FOR THE SHOP-WEARY

One recent Sunday afternoon, I visited a CompUSA store in midtown Manhattan with a friend who was in the market for a notebook computer. Many machines were on display, but the first several we attempted to try out were either broken or password-protected, meaning we couldn't test them without flagging a salesperson. (Retailers may implement passwords to thwart people out to crash the system.) Problem No. 1 was getting assistance. When a salesman finally arrived, he couldn't decipher the password, either. But rather than find someone who could, he tried to sell us one of the few models that was accessible. We headed downtown to J&R Computer World, where we found informed salespeople, machines that worked, and—not incidentally—reasonable prices.

"That's not the way it should have worked [at our place]," admits Hal Compton, CompUSA's chief operating officer. And it doesn't always work that way at CompUSA, of course. But a survey of my BUSINESS WEEK cohorts nationwide revealed that computer retailing nightmares are, in fact, all too common. A salesperson at Best Buy in Arlington, Va., told one of our writers that a printer he was considering would work on both IBM and Macintosh machines. It didn't. Another correspondent tried to return an Epson printer to Chicago's Elek-Tek after realizing that a salesperson exaggerated the unit's features. But the store stuck by its no-return policy, even though the writer offered to pay for a pricier model.

SUPERSTORE Big retailers like CompUSA offer brand variety, repairs, even classes. But the sales help's techno-savvy is hit or miss wherever you shop

In a day when folks can purchase computers anywhere from department stores to electronics chains, where should you shop? To some degree, the answer is the same as always: Go on the advice of friends, and pick a convenient place with a wide choice of brands. But differences among sales outlets emerge.

COMFORT WARE. You'll usually find decent prices and the broadest selection of PCs, software, and assorted doodads at CompUSA and other superstores. The stores are equipped to handle repairs or add memory to a model you are considering. They also offer training classes. But in my experience, it's hit or miss whether you'll come across techno-savvy salespeople.

Chances are you won't get the hand-holding—or the precise model you want—at a mass merchant such as Sears. Prices may not be rock bottom, either (though quite a few stores match rivals' ads). But for many the comfort level is high, since they've been buying underwear there for years.

Mail order is a fine choice for seasoned buyers who know pretty much what they want. Prices are often excellent, and the goods are delivered to your door. The downside: You can't kick the tires, and if something breaks, you may have to box up the PC and go through the hassle of returning the darn thing. Folks buying on price alone can often get a good deal at a warehouse club. "But don't go there for the service," warns Kevin Ferguson, editor of *Computer Retail Week*, a trade paper that sends a "secret shopper" out each week.

In any store, consumers should be wary of sales types who seem to tout a particular brand. The store may be trying to move inventory, or the salesperson may earn a bigger commission. Anyone waiting on you should ask how you plan to use the computer. In turn, you should quiz salespeople on why they recommend the models they do.

If you're not confident that a salesperson knows what he's talking about, you might try another tactic. Ask questions that sound intelligent but that any techie knows are nonsensical. Example: Is this Pentium 100 going to give open-platform performance? If the salesperson says, "Sure," run out of the store as quickly as possible.

BULLETIN BOARD

ELECTRONICS

ROBO-READER

Road warriors sometimes carry around electronic organizers to keep track of appointments and contacts. Panasonic Co. recently introduced a paperback-size version that doubles as a business-card reader. The $400 NeoFile CF-CR100

employs optical character recognition to scan and store data on up to 500 business cards. Panasonic says the unit is 96% accurate. As with other business-card scanners, it failed to capture correctly the BUSINESS WEEK logo printed in red on my card. But users can edit the results and search by name or company. An optional link lets you transfer data to a PC.

SOFTWARE

CYBERPLASTIC

The new version of *Quick-Xpense for Windows 95*, the software from Portable Software Corp. that automates expense-account reporting, will allow people who carry corporate MasterCards from GE Capital to download charges into the program. Portable says the data will be available the day after the vendor posts the sale, and if you've already entered a transaction manually, the software will flag the duplication. Users outside the 513 area code must pay long-distance charges to dial up via modem. The $70 upgraded version is due out in September.

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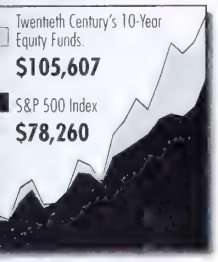

's what would have happened to a pothetical $20,000 investment led equally on 6/30/85 among five Twentieth Century equity funds have been in existence for at least years: Vista, Select, Growth, Ultra Giftrust, compared to the same unt invested in the stocks that com- d the S&P 500 during the 10-year od ending 6/30/95. Past perfor- ce is no guarantee of future results.

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Fund	Life of Fund	10-Year	5-Year	3-Year	1-Year
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Select *Investors*	16.6% *(6/30/71)*	12.3%	7.4%	9.2%	16.5%
Growth *Investors*	18.5% *(6/30/71)*	15.5%	11.2%	10.1%	22.7%
Ultra *Investors*	17.4% *(11/02/81)*	19.0%	21.3%	20.1%	29.0%
Giftrust** *Investors*	22.3% *(11/25/83)*	24.3%	25.5%	39.5%	60.4%
S&P 500 *Index*	–	14.6%	12.1%	13.2%	26.0%

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Balanced Investors

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International Equity

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all domestic mid-cap funds during investment periods ending 6/30/95, Lipper Analytical Services, Inc., an independent mutual fund ranking service, ranked Investors on the basis of average annual total return #22 out of 32 funds for the five-year period and #4 out of 17 funds for the 10-year period. ■ Data quoted esents past performance and assumes reinvestment of all distributions. ■ Investment return and principal value will fluctuate, and redemption value may be more ss than original cost. ■ The S&P 500 Index is an index created by Standard & Poor's Corporation that is considered to reflect the performance of the stock market eneral. It is not an investment product available for purchase. ■ The graph is intended to show investments over time. Included in the investment blend are only e Twentieth Century equity funds in existence for 10 years or more and the performance above represents only those funds. ■ All performance illustrations for ntieth Century are shown net of fees and assume reinvestment of all distributions. P.O. Box 419200 Kansas City, MO 64141-6200 BSW

Call today for more information: 1-800-345-2021.

BY PAUL CRAIG ROBERTS

SUCCESS WAS MIKE MILKEN'S REAL CRIME

JUSTICE? In a new book, a legal scholar claims that Milken was guilty only of showing up the Corporate Establishment

In the 1980s, "junk-bond king" Michael Milken was made the symbol of the "greed decade" and imprisoned. Now the Milken affair has received the careful attention of a distinguished legal scholar. In his just published book, *Payback: The Conspiracy to Destroy Michael Milken and His Financial Revolution*, University of Chicago law professor Daniel Fischel concludes that the only party to engage in wrongdoing was the U.S. government, which wrongly persecuted Milken.

Milken was a victim of his success. His financing strategy, which focused on future performance rather than past results, enabled upstart companies and those with weak credit histories to go through reorganizations that made them major players. Although Milken himself did not organize hostile takeovers, junk bonds made them possible, thus exposing the underperforming corporate Establishment to pink slips. Corporate fear and hatred, together with Wall Street's envy of the tremendous profitability of Drexel Burnham Lambert's high-yield bond division, created a lynch mob.

CORPORATE REWARDS. As Fischel puts it: "The Establishment losers in the marketplace, desperate for revenge and to restore their lost positions of dominance, turned to the government for help." This opened up opportunities for "ambitious but unscrupulous government lawyers like Rudy Giuliani." Using the press to create a false picture of wrongdoing, U.S. Attorney Rudolph W. Giuliani brought the full power of the government against the target of the corporate and Wall Street ire. Professor Fischel notes that Giuliani was rewarded, in turn, with Establishment financing for his subsequent New York mayoral campaigns.

Fischel writes that there is no evidence that Milken committed any crimes or "engaged in any conduct that had ever before been considered criminal." The case was based on a sudden criminalization of routine trading practices and technical regulatory violations.

Milken contributed to his own demise by accepting legal advice to extricate himself from lengthy and expensive legal proceedings with a plea bargain. This proved to be a strategic mistake, for two reasons: The sentencing judge, Kimba Wood, handed him a stiff prison term for technical infractions that had, in the past, never carried any time behind bars, and by "copping a plea," Milke cast himself in the role of a guilty party.

The pressures on Milken to make a dea were phenomenal. The media were willin accomplices in the pursuit of Milken. In addi tion, Milken faced a RICO freeze of his assets the hounding of family members, and threatened indictment of his brother, Lowel "A brother for a brother," as then Attorne General Richard L. Thornburgh structure the deal.

CAREER BOOST. Fischel says we have muc to learn from the persecution of Michael Milk en. The key lesson is "the need to be vigilan to guard against the arbitrary exercise o power by the government against those wh are unpopular because they threaten the ec onomic Establishment. We need to be partic ularly suspicious about the rhetoric of greec Powerful interest groups and their allies i the government use the rhetoric of greed t discredit and delegitimize the success of otl ers. The more successful the effort, the eas er it is for the government to regulate th group out of business or, in the extreme ca es that took place back in the 1980s, pu them in jail."

The other important lesson is that prosecu tors use their offices to serve their career rather than justice. Fischel says that "Rud Giuliani's win-at-any-cost mentality, and h police-state tactics, were as far removed fro the pursuit of justice as is imaginable. Regre tably, Giuliani's election as Mayor of Ne York will only encourage others to try an follow in his footsteps."

Fischel's account of government misbeha ior is finding resonance in current congressio al hearings on Whitewatergate, Waco, and FBI shakeups following the bureau's exce sive use of force against the Weaver family Idaho in 1992. Law enforcement works be when it is constrained by a commitment justice. Civil libertarians were ahead of lav and-order conservatives in realizing that ju tice may play second fiddle to ambition the public, as well as private, sector.

The necessary law enforcement offices society are in ever present danger of becor ing ramps for personal careers. The functic of prosecution, said Supreme Court Justic George Sutherland in 1935, is the imparti service of justice. If law enforcement is rei vigorated by this ethic, the country will better off.

Paul Craig Roberts is John M. Olin Fellow of the Institute for Political Economy and Distinguished Fellow of the Cato Institute in Washington, D.C.

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BY GENE KORETZ

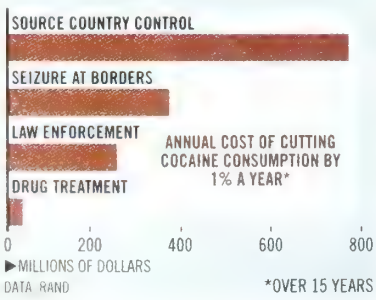
TREAT JUNKIES, SAVE MONEY

Therapy proves to be cost-effective

Today's middle-class taxpayers have little sympathy for drug addicts and less use for drug treatment programs—particularly since most heavy users eventually resume the habit. Yet by the strict yardstick of cost, treatment seems to pay off big in lower consumption.

A 1993 report by the Office of National Drug Control Policy, for example, concluded that treatment programs generally produce social benefits far in excess of their costs via reduced crime and health spending, and higher productivity and employment. Now, a new study of cocaine control strategies by RAND researchers C. Peter Rydell and Susan S. Everingham finds that treatment is seven times more cost-effective than law enforcement in reducing cocaine consumption (chart).

The study estimates that current U.S. anticocaine outlays total some $12 billion for domestic law enforcement,



source-country control, and interdiction at borders and about $1 billion for treatment of drug addicts. Such outlays have helped cut the number of cocaine users from 9 million in the early 1980s to 7 million today. But they have failed to cut the amount of cocaine consumed.

The reason is that the declining number of casual users has been partly offset by a rise in the ranks of heavy users (at least once a week), who now number 2 million and account for more than two-thirds of cocaine demand. Meanwhile, despite the government's antidrug crusade, the street price of cocaine has fallen sharply in real terms since 1980.

Treatment is so cost-effective because it targets cocaine consumption directly. Some 80% of heavy users stay off drugs while in treatment, and about 13% of treated addicts kick the habit—some permanently, others temporarily. By contrast, supply control methods such as law enforcement and drug seizure are relatively indirect and highly expensive.

The RAND study doesn't advocate ending efforts to control drug supply, simply changing the spending mix. By shifting $3 billion more to treatment programs, it figures the U.S. could treat all heavy cocaine users once a year—three times the number treated today. The payoff, if most could be induced to participate: a one-third reduction in cocaine consumption and significant declines in both the number of users and the social costs of addiction.

THE COST OF NEW SPEED LIMITS

How fuel efficiency could suffer

The effective fuel efficiency of America's motor vehicle fleet is about to take a hit. Oil analyst Adam Sieminski of NatWest Washington Analysis notes that "legislation to abolish the national speed limit for automobiles has gasoline dealers salivating."

The change has already been approved by the Senate. Back in 1987, the national standard was raised from 55 mph to 65 mph in nonmetropolitan areas, and most states have now followed suit. The new law would give them leeway to set limits even higher. A 1984 Transportation Dept. study found that the average car got 34% and 17.7% fewer miles per gallon at 75 mph and 65 mph, respectively, than at 55 mph. Thus, even a small shift to higher speed limits should boost America's gasoline demand.

ARE AUTO DEALERS BIASED?

They give white men the best deals

If you're black or a woman, you're at a big disadvantage in bargaining for a new car. That's the finding of a study by Ian Ayres and Peter Siegelman in the current issue of *The American Economic Review*.

Researchers sent 38 white males, blacks, and women, to bargain for 306 new cars at 153 dealerships in the Chicago area. Each white male buyer was paired with a black or woman who ap proached the same dealer at a differen time presenting identical bargainin strategies and financial credentials.

The study found that the best dea were consistently offered to whit males. Final offers to black males ave aged $1,100 higher than prices aske from white males, while black femal and white females were quoted price $410 and $92 higher than white men.

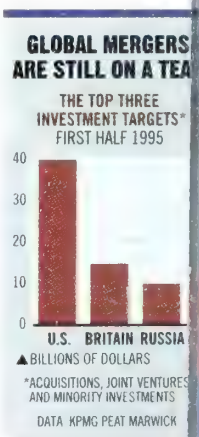
Occasional sexist or racist remar by dealers suggest that animus again women and blacks may have played part in this pattern. But a bigger fact seems to have been sellers' beliefs th blacks and women tend to be poore bargainers than white males. The stu notes that both black and white deale favored white over black buyers, f example, and consumer surveys ind cate that blacks and women are mo prone than white men to regard stick prices as nonnegotiable.

TYING THE KNOT ON FOREIGN SOIL

Big bucks for cross-border deals

Sharp currency shifts are whetti corporate appetites for global me gers and acquisitions, reports KPMG Pe Marwick. The firm's latest tally ind cates that the value of cross-bord deals in the first half of 1995 total $110.9 billion, up 25% from last yea first half.

U.S. companies remained the bigge buyers, raising outlays by nearly $6 b lion, to $25.6 billion, but the low doll inspired foreign companies to boo U.S. spending by nearly $12 billion, more than $39 billion. Strong currencies seem to have inspired the Germans and Japanese to quadruple outlays, to $15.8 billion and $9.1 billion, respectively.



After the U.S., the leading investment targets in terms of deal value were Britain ($14.2 billion) and Russia ($9.3 billion), which benefited from an Exxon Corp. $4.6 billi joint venture. The U.S. also led in nu ber of deals, snaring 410, followed China's 339.

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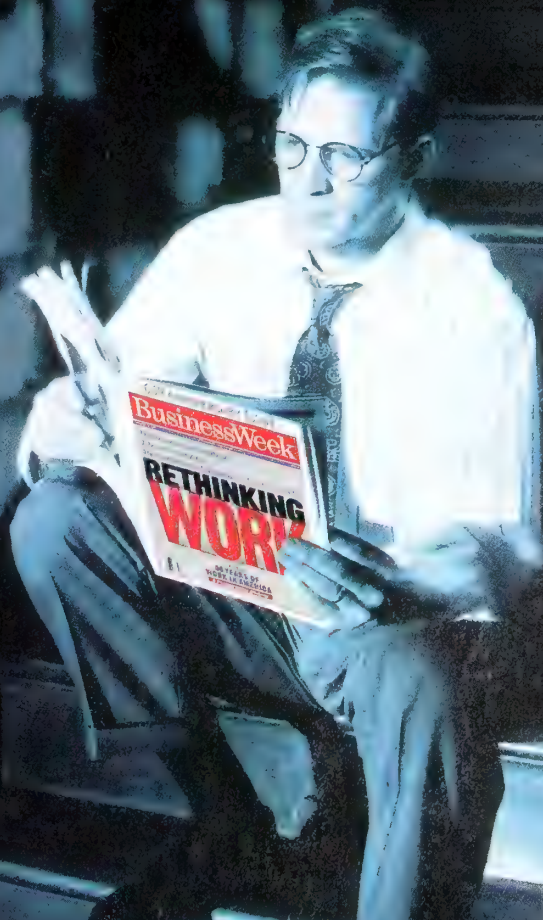

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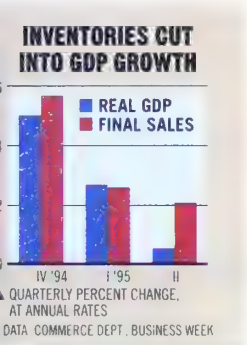
JAMES C. COOPER & KATHLEEN MADIGAN

HE SECOND QUARTER WASN'T SO BAD, ND THE SECOND HALF MAY BE BETTER

U.S. ECONOMY

You know the drill: To handle any project successfully, you ve to dot the i's and cross the t's. In analyzing the cond-quarter economy, the "i" is inventories and the is trade. Usually overlooked, these two sectors had roles in determining growth last quarter, and they a lot about the outlook in the second half.

Real gross domestic product grew at an annual rate just 0.5% last quarter, down sharply from 2.7% in the st. The GDP fixed-weight price index showed that lation also slowed, with prices throughout the econo- rising at a mild 2.8% rate, from 3.1%.



The severe slowdown in inventory accumulation accounted for almost all of the GDP weakness. Inventories shot up by $51.1 billion in the first quarter, and then by only $30.4 billion in the second. That shift subtracted more than 1½ percentage points from growth last quarter. Auto inventories swung from a small accumulation in the st quarter to a drop in the second. That alone cut one int from GDP growth.

In addition, a $6.5 billion widening in net exports last arter trimmed another half-point. The quarterly de deficit is the biggest in 7½ years. Exports grew at respectable 7.2% pace, but imports soared 9.4%, on of a 10.1% surge in the first quarter.

Even though GDP growth was the weakest in 3½ ars, demand by consumers, businesses, and govern- ents actually held up quite well last quarter. Final les—GDP less inventories—grew by 2.1%, only down oit from the 2.6% advance in the first quarter (chart). Looking ahead, the latest reports on consumers, in- stry, and construction show that the economy has ore strength now than earlier in 1995. One promising gn: Purchasing managers suggest that the inventory rrection is largely played out, laying the foundation higher production, payrolls, and consumer incomes.

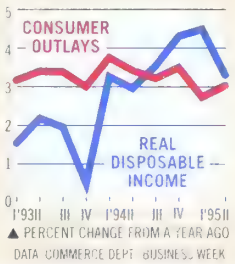
F COURSE, the second quarter could look even orse as time passes. Because not all of the June data e available, the Commerce Dept. made what seem to generous assumptions for June inventories and for- gn trade. A shortfall in either sector could put GDP owth at zero when the data are revised Aug. 30.

Moreover, Commerce said on Aug. 2 that under its chain-weighted GDP index, the economy contracted at a 0.2% annual rate last quarter. This new index will replace the fixed-weight measure in December.

But the second quarter is history. More important to the outlook is what the latest data are saying about the second half. Here, the inklings about the future are good. The government's index of leading indicators, for instance, rose 0.2% in June, stopping a three-month string of declines. And personal income and spending were healthy in June.

INCREASING INCOMES are especially important because what's in the wallet will determine the course of consumer spending. In June, personal income rose a sturdy 0.4%. After adjusting for taxes and prices, real disposable income was up 0.3%. Incomes would have increased more except for a fall in farm subsidies.

Real consumer spending advanced 0.2% in June. Demand for goods increased 0.4%, but outlays for services were flat, down sharply from the average 0.4% gain of each of the four previous months. A drop in household operations, including utility demand, offset gains elsewhere. July's heat wave, however, virtually guarantees that consumers pumped up electricity use to run everything from pool filters to air conditioners.



Although consumer purchases grew at a solid 3.1% in the year ending with the second quarter, outlays have not risen as quickly as aftertax income, up 3.3% (chart). One reason: The fastest income growth has come in investment-related earnings, such as interest and dividends, that are less likely to be spent. But they add to a feeling of wealth, which may be why consumers in 1995 are more willing to use credit. So as long as paychecks grow modestly, shoppers will stay in a spending mood in the second half.

A consumer-related sector that still looks flat is housing. Residential construction fell at a 14.2% annual rate in the second quarter, the third drop in the past four quarters. And the monthly data suggest that little headway will be made in the second half.

New single-family home sales rose 6.1% in June, to an annual rate of 728,000, the highest in 1½ years. Buyers were attracted to the low mortgage rates in June. But because rates have risen again, mortgage applications to buy homes peaked in early June and then

trended lower. That means homebuilding will offer little, if any, help to GDP growth in this half.

Industrial construction is where builders are busiest. Construction spending jumped an unexpected 0.9% in June, while commercial projects alone surged 3.5%.

According to the F. W. Dodge Div. of The McGraw-Hill Companies, rising building contracts suggest that commercial real estate will remain on the rebound. Total contracts rose 3.6% in June, and nonresidential construction gained 3.8%. For the first half of 1995, nonresidential contracts are running 9% above last year's first half. Housing contracts are down 10%.

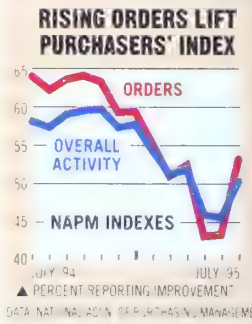
FOR MANUFACTURERS, the revival in commercial real estate, after the recession years of the early 1990s, is very good news. Not only does the comeback mean greater demand for concrete, gypsum, and steel, but companies will need computers, machinery, and file cabinets when the buildings are done.

The capital-spending boom has kept the industrial sector going even as consumer spending slows. Investment in producers' durable equipment rose 12.7% in the second quarter, on top of a 24.5% leap in the first.

Demand for capital goods continues to rise. New orders for all durable goods were basically flat in June, after rising 2.6% in May. But bookings for capital goods outside of the volatile aircraft industry jumped 2.5% on top of a 5% surge in May. Businesses are splurging on machinery because they have the cash. According to the Corporate Scoreboard (page 88), profits continued to soar in the second quarter.

Partly thanks to increased orders, the industrial sector rebounded in July (chart). The National Association of Purchasing Management's index rose in July, to 50.5%, after falling in May and June. A reading over 50% indicates that the industrial sector is expanding. The NAPM reported that orders, production, employment, and inventories bounced back in July.

The NAPM inserted a special question on inventories into its survey. It reported that the majority of responding purchasers "feel both their organizations' and their customers' inventories are now at about the right level for the expected amounts of sales." If so, that means that factory output and jobs could pick up steam in coming months.



To be sure, the top-line GDP number looked awful last quarter. But growth—like God—is in the details. Yes foreign trade and inventory accumulation do matter, but the larger demand sectors, such as consumers and construction, present a truer—and healthier—view of the economy's future performance.

FRANCE

CONSUMER SPENDING WILL TAKE A HOLIDAY

French shoppers went on a binge in June, but almost all of the largesse swept into car dealerships. After the spree, such factors as higher taxes will keep consumers on a tight rein.

Consumer outlays of manufactured goods jumped 4.2% in June as the French took advantage of government auto subsidies that ended on the 30th. Car sales in June surged 46% from a year ago, but then dropped 8.7% in July. The end of the car subsidies also hurt business optimism in July. The French Institute of National Statistics (INSEE) said executives were less upbeat about prospects over the next three months. However, all of the increased pessimism was in the auto industry.

Before the spring quarter, consumers lagged behind most other sectors. In its final revision to gross domestic product, INSEE confirmed that real GDP grew 0.7% in the first quarter compared with the fourth, to stand 3.4% above its year-earlier level. But consumer spending was up just 1.8% from a year ago.

The upturn is firmly in place, but cutting the public deficit and sustaining the franc will slow growth. Tax hikes, including a two-percentage-point rise in the value-added tax, will offset a 4% rise in the minimum wage. And the Chirac government must cut the deficit to 3% of GDP by 1997, from 5.1% now, even as it tries to help France's unemployed.

To lift growth, the Bank of France began to cut interest rates in July. And yet, on Aug. 1 the franc, helped by France's low inflation, hit a four-month high against the mark. So if unemployment rises, the Bank of France may ease again even if the Bundesbank does not.

But will another rate cut help? A 1994 report by the Bank for International Settlements showed that France is less sensitive to interest rate shifts than Germany or the U. S. That's because 80% of bank loans to households carry fixed rates, and French businesses rely more on internally generated funds than on borrowing. Thus, a rate cut could backfire if it did little to help the economy but weakened the franc.

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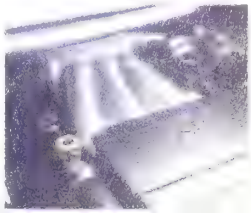
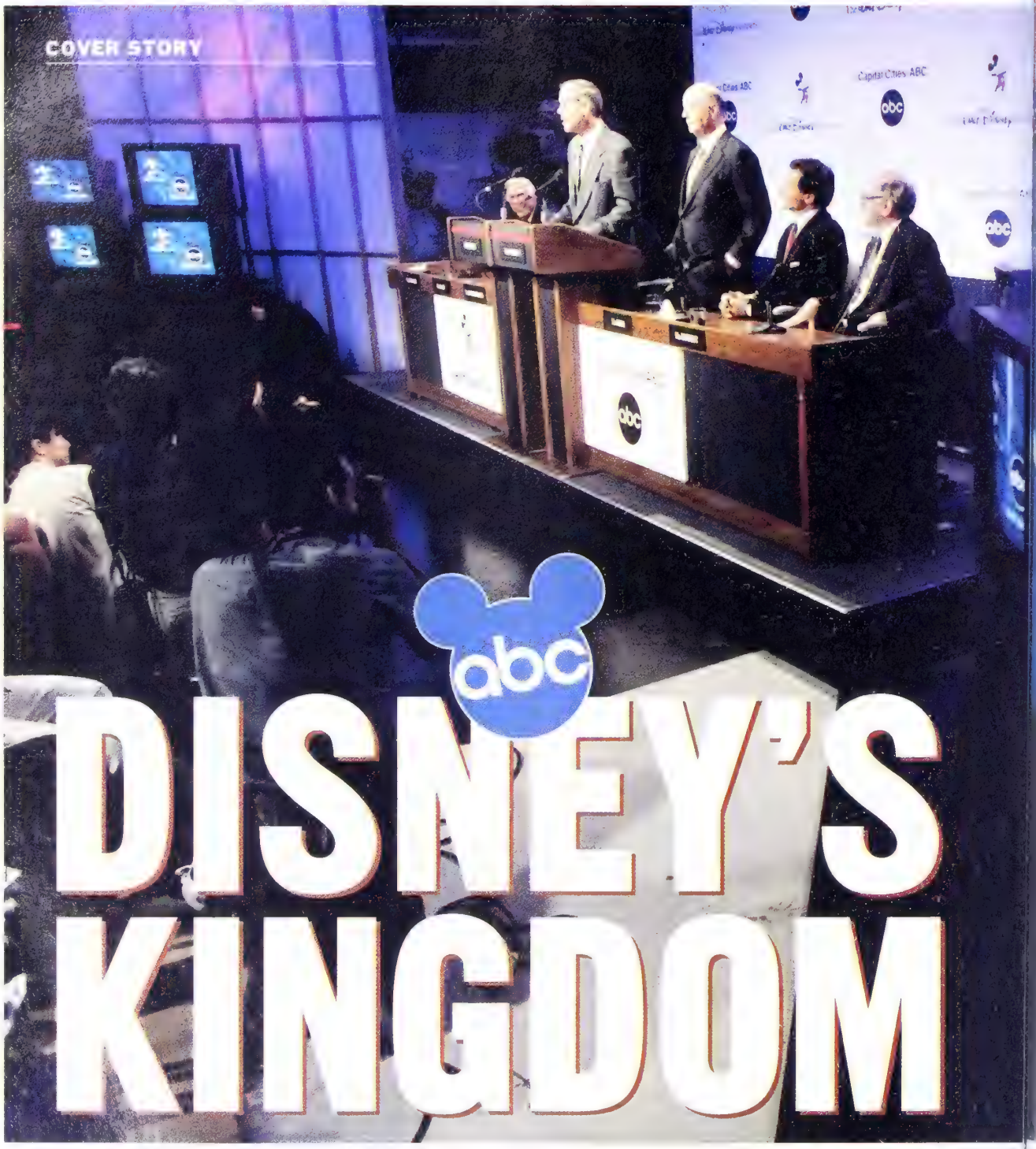


COVER STORY

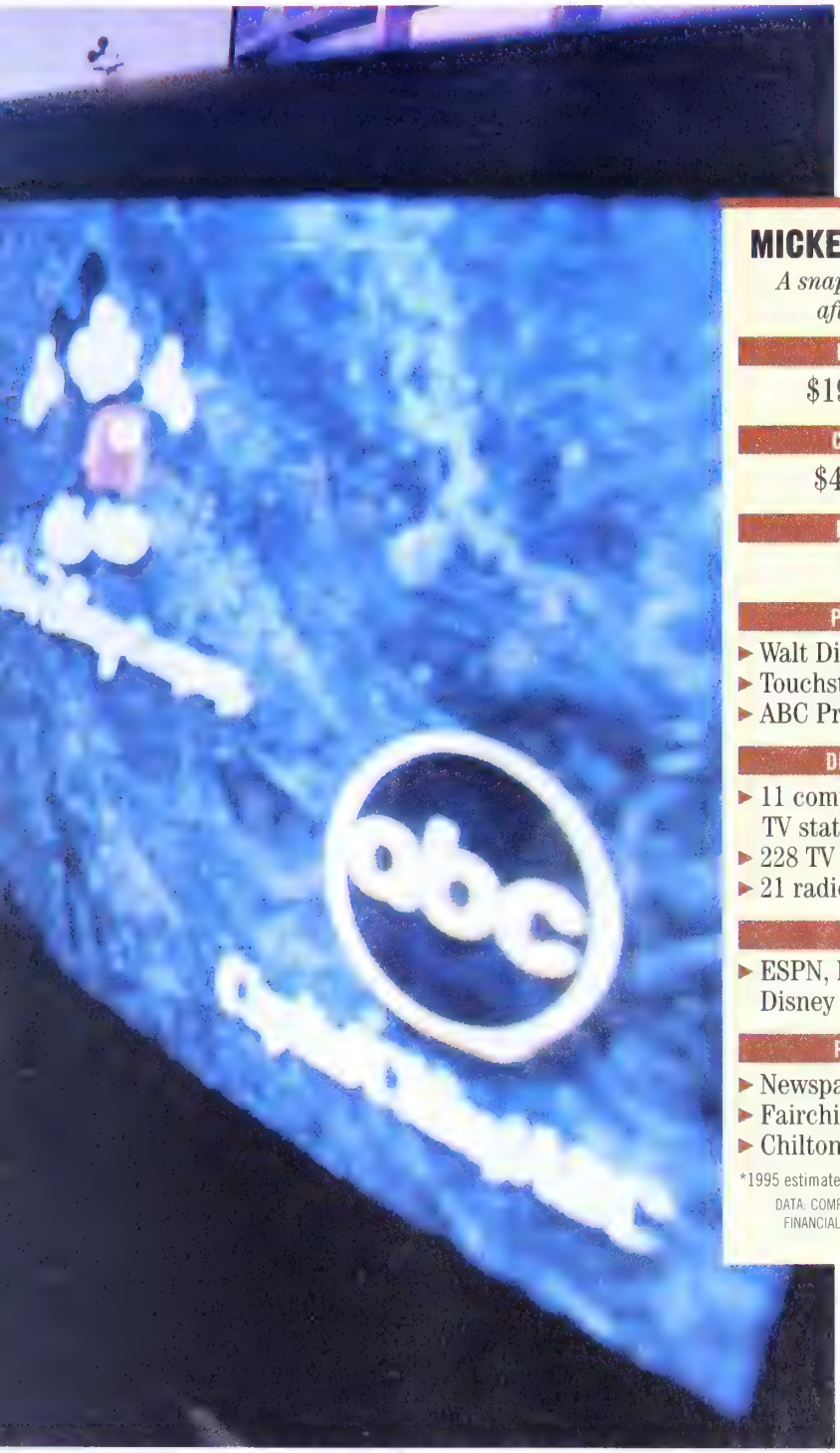


DISNEY'S KINGDOM

As seismic shifts shake the media biz, Eisner lands on top–for now

At 11:30 a.m. on the most important day of his professional life, Disney Chairman Michael D. Eisner looked tanned and rested as he stood above a roiling sea of reporters and photographers and explained history's second-biggest corporate takeover. By 11:30 p.m., Eisner had endured countless personal interviews in New York, been uplinked by satellite for worldwide consumption, and had flown to Washington to appear on both CNN's *Larry King Live* and ABC's *Nightline*. by midnight he looked a little worse f wear, he might have been forgiven: Ju 12 months earlier he had undergo emergency heart surgery, an event th had launched him on a year as dismal this day was exuberant.

The deal was like tonic. In a single, markable move on July 31, Eisner vived his personal stature with a stu



THE CORONATION: *Does Eisner's team have enough depth?*

MICKEY, MEET ABC

A snapshot of Disney after the deal

REVENUES*
$19.3 billion

CASH FLOW*
$4.6 billion

EMPLOYEES
85,000

PRODUCTION
- Walt Disney Pictures
- Touchstone Pictures
- ABC Productions

DISTRIBUTION
- 11 company-owned TV stations
- 228 TV affiliates
- 21 radio stations

CABLE
- ESPN, Lifetime, A&E Disney Channel

PUBLISHING
- Newspapers in 13 states
- Fairchild Publications
- Chilton Publications

*1995 estimates

DATA: COMPANY REPORTS, BLOOMBERG FINANCIAL MARKETS, MERRILL LYNCH

g $19 billion takeover of Capital Cit-/ABC Inc. He also shifted the balance power in the sizzling entertainment siness by transforming Walt Disney into a $19.3 billion behemoth. If he integrate the two companies smooth-no simple task—the enterprise would come the industry's most influential. d Eisner, for now anyway, would erge as the game's premier power yer. "This rejuvenates him just when he needs it most," says Viacom's chairman, Sumner M. Redstone.

Eisner's move was so dramatic, in fact, that it made the other big deal of the week—Westinghouse Electric Corp.'s $5.4 billion offer for sagging CBS Inc.—seem like a footnote. The vast difference in price highlights ABC's superior array of assets, from cable properties to international investments to magazines. It also illustrates the gap in management vision between CBS Chairman Lawrence A. Tisch, an inveterate cost-cutter, and Cap Cities Chairman Thomas S. Murphy, a champion of growth and innovation.

Added together, though, the staggering total of $24.4 billion on the table sends a clear message: Despite all the ballyhoo about the Information Highway and the growth of cable and satellite delivery, the networks are far from obsolete. In a world with an increasing number of viewing choices, ABC, NBC, and CBS retain awesome power, with the ability to reach virtually every television set in America. "You still have to grab eyeballs," says Thomas S. Rogers, NBC Inc.'s head of business development. "We're the best at doing that."

That's why the networks continue to rake in gobs of advertising dollars and why their businesses continue to grow. The networks' power also is the reason that Westinghouse is taking on $4 billion in new debt, while preparing to slash—perhaps abandon—its old-line industrial holdings to plunge into media. Faced with a future of smokestacks or soap operas, Westinghouse Chairman Michael H. Jordan didn't blink. "Broadcasting will become the cornerstone," he says.

His logic: Recent rule changes soon will permit the networks to own more of their own programming, enhancing their value and spooking outside suppliers such as Disney, which fear they will find less shelf space for their products. The telecommunications bill now moving through Congress would allow networks to own more stations and, eventually, create several new digital channels at each station they own.

That these deals should receive

Jordan, who is paying dearly for a troubled asset, says the Disney deal "vindicates" his strategy

coverage worthy of a foreign invasion is testimony to the media's endless fascination with itself and to the public's preoccupation with all things that sniff of the I-Way. But it also points to the supremacy of both scale and market power as companies such as Disney try to transcend the messy media clutter. Brands such as ABC and ESPN (another Cap Cities property) grab people's attention and hold it. And the more forms of information delivery a company owns, the bigger chunk of profits it potentially can earn.

For years, many companies—Disney, most notably—didn't buy that argument. "Content is king," went the mantra: League games ushered Fox into the big time—but Murdoch wouldn't have won them without his distribution.

Following Murdochian logic, Viacom and Time Warner Inc., too, have been building television networks through which to sell their own programming. Time Warner also has huge cable assets. Viacom has its profitable Blockbuster Video unit, which is nothing if not a vast distribution system. Tele-Communications Inc., the nation's largest cable operator, has gone the other way, busily collecting programming assets.

Of the media moguls, Eisner has been most disdainful of distribution investments over the years. But he softened them, over the air and on cable. Besides its afternoon soaps, for example, ABC Productions made *Thunder* [illegible] sitcom for this year's prime-time lineup.

Indeed, Disney-ABC is about more than just captive distribution. [illegible]ly, the deal makes all kinds of [illegible] sense. Disney will have to take on $10 billion in debt, but the combined $5 billion in Disney/Cap Cities cash flow will allow Eisner to ease the leverage within five years. And while half of the deal will be done with Disney stock, ABC's strong profits mean net earnings per share will be only mildly diluted. ABC will add to Disney's cash-flow per share, a key indicator for Wall Street.

THE OTHER DEAL: [illegible] Fisher

TRUCKING MEETS TIFFANY

A snapshot of Westinghouse after the deal

REVENUE*
$14.3 billion

CASH FLOW
$1 billion

EMPLOYEES
86,000

PRODUCTION
- CBS Entertainment

MARKETING
- The industry's largest broadcasting sales organization

DISTRIBUTION
- 15 TV stations
- 39 radio stations
- More than 200 [illegible] and 585 radio affiliates

OTHER
- Nuclear energy
- Power generation
- Refrigerated trucking
- Office furniture
- Defense electronics

[illegible] ranking down $100 million [illegible] a new TV venture proposed by three of the Baby Bells. Says one executive close to him: "Rupert [illegible] one of the few media people that Michael Eisner really, really admires. It suddenly dawned on him that [illegible] Says [illegible] something [illegible] consistent [illegible]

[illegible] Disney [illegible] a big way. But [illegible] a distribution vs. content [illegible] Disney does both, [illegible] and delivering [illegible]

More to the point, the deal helps Eisner answer some big strategic questions. No. 1: Where will Disney's growth come from? Although earnings are up [illegible] for the first nine months of the current fiscal year, that's largely due to the outsized success of *The Lion King*, which has produced about $[illegible] billion in total revenue so far. This year's *Pocahontas* was big, too, but not a big. And [illegible] while growth in the theme parks has slowed. Eisner has put some $500 million in Euro Disney losses behind him, but a planned new park in Virginia fell in political problems, and an expansion at Disneyland was shelved. [illegible] Eis-

ner is looking far away as Hong Kong—but that ill be expensive.

Cap Cities is ensive, too, but it offers Eisner the portunity to double the size of his mpany immediately with assets th re entirely complementary. It als as the potential to help Disney ex d operations overseas, while enha g much of what Disney does in th ountry. "We're not ure what the ld will look like in ive years," sa Disney COO Sanford M. Litvak. "But ing a broad array of assets certainly sitions you better."

While Eisner nits that his international efforts ha een lacking, Cap Cities has a numbe investments in European media com ies. And ESPN has a healthy presenc road, particularly in Asia. Cap Cities urphy, who will join the Disney boar oints out that selling Eisner's cable ne rk, the Disney Channel, alongside N will "give us two horses to ride [foreign markets], not ust one." Eisne ho wants to enhance the Disney bran ame in foreign markets so he car xport theme parks, thinks his comp can learn from ABC about developin oreign contacts and building distribu n.

Domestically, advantage of owning ABC is manifold. st, the stations Cap Cities owns, wh reach some 25% of the country, ar mong the industry's best run, and th off huge amounts of cash. When Dis owns them, it will have a guarante platform for its first-run syndication grams—shows that might otherwise e on the vine.

KIDS' SHOWS. T network is less profitable. But beca its affiliates cover virtually the wh country, it provides a rich programmi pportunity—as well as a platform t dvertise other Disney properties m theme parks to films. The best ortunity in the short term is childre programming. Disney's kids' show ere recently booted from Fox. ABC c l build the franchise on afternoons ar Saturday mornings.

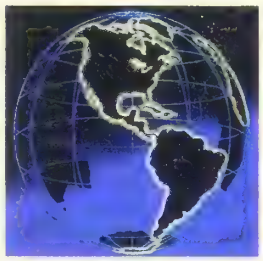
In entertain t, the name of the game is exposur nd the network will certainly provid hat for the myriad Disney copyright ut Eisner's company won't profit by oving its programs down ABC's th t. The network's strength is its s in buying the programs it thinks a best for its audience, regardless of the plier. ABC might now give a Disney sh a little more time to prove itself befo ulling it. But forcing the issue, Eisne ays, "could damage the goose that la he golden egg."

The beauty of ning ABC is that Disney will reap pr s from all the shows the network air whether it produces them or not. Eis likes to tell the story of when he w a Paramount executive and sold *H y Days* to ABC. He began developing the program when his son was three months old, sold it two years later, and didn't see a dime of syndication revenue (which pays the development costs) until his son's 12th birthday. ABC, meanwhile, had profited handsomely and used *Happy Days* to build audience for another blockbuster, *Laverne & Shirley*. Says Eisner: "I want the money nine years earlier."

Of course there's no guarantee that Cap Cities—or Disney—will remain so robust. Any acquisition of this size can create bigger problems than it solves. And some think Eisner is buying the No. 1 network at its cyclical peak, when advertising sales are at all-time record levels. The boom has covered up the fact that ABC—like all the networks—has been forced to boost affiliate com-

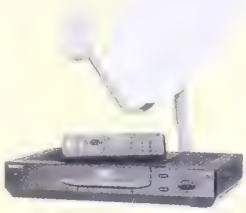
ENTERTAINMENT'S NEW LANDSCAPE

Why are networks changing hands now?



GLOBALIZATION As media companies search for growth, they're looking overseas. ABC and NBC each have extensive foreign assets and experience. And the three major networks all can be used to build an audience for programming that can then be resold in growing markets overseas.

DEREGULATION If it passes, federal telecommunications legislation will make TV networks more valuable by allowing them to own more local stations. Eventually, the networks also may be able to operate several digital channels at each station they own. In addition, rules are being relaxed so that networks can own the programs they air—even between 7 p.m. and 8 p.m., the prime-time hour now reserved for syndicated programming.



TECHNOLOGY Direct-broadcast and digital technology will create innumerable outlets for programming. But networks, with their blanket coverage and core viewership, remain the most efficient way to distribute and promote media. In this new world, strong media brands such as ABC, NBC, and CBS are critical.

FINANCES The advertising market is booming, enriching network cash flows. Another attraction: Stock prices are up, and the cost of debt is down, giving would-be acquirers the wherewithal to put up big money.

EDGAR BRONFMAN

NEW BLOOD Edgar Bronfman, Michael Jordan, and Ronald Perelman have entered the media fray as genuine players, joining old hands such as Ted Turner and Rupert Murdoch in roiling the acquisition waters.

(CLOCKWISE FROM TOP) PHOTOGRAPHS BY DEREK TRASK; [illegible]; [illegible]; [illegible]

"It sounds funny, but I'm thinking about the millennium change. I've got to protect the Disney brand"

pensation and sign agreements lasting up to 10 years in the wake of Murdoch's efforts to steal stations for Fox.

Meanwhile, ABC's own stations recently paid dearly for rights to King World's *The Oprah Winfrey Show*, *Wheel of Fortune*, and *Jeopardy* past 2000. Add to that the highly cyclical nature of ratings and some think Murphy is getting out at the right time. Says a rival: "Anything in this market is overvalued because the advertising is so bullish."

If so, Westinghouse Chairman Jordan has much more to concern him. He is paying dearly for a troubled asset. Jordan, citing the vast potential of his combination, says the Disney deal "vindicates" his strategy. But will other bidders agree, pushing the price for CBS even higher? Viacom's Redstone says CBS is simply too expensive. Sources say Time Warner concurs. But acquisitive Seagram Co. could find a partner and jump in. Then there's Ted Turner. He's frantically trying to buy King World Productions Inc. in order to use its cash to buy out Time Warner's 19.6% stake in his company. That accomplished, he conceivably could bid.

Some speculate that NBC could be for sale. But sources close to the networ say General Electric Chairman Jack I Welch Jr. is more interested in buyin than selling. NBC's hope is that afte nixing a deal over control issues las year, Turner will see the wisdom of sel ing his company to the Peacock. Th combination, or one involving Seagran would create a huge rival to Disney/ABC

PROBLEMS. Eisner has other problem to worry about. The Disney chairma who has no clear successor, has seen disruptive outflow of talent since hi trusted chief operating officer, Fran G. Wells, died in a helicopter accide last spring. Since then, va ued studio chief Jeffrey Ka zenberg left in a huff, as di television honcho Richar Frank. More than a doze top executives have followe including Disney's two to TV animators. Frank was r placed by Dennis Hightov er, a curious choice give that he has no programmir experience. The questio are obvious: Has Disney lo bench strength? Does Eisn have the team to manag this mammoth acquisition?

For now, though, all th has been pleasantly blurr by the heady froth of t deal. Eisner admits he's bu ing ABC at the top of i game. But that, he says, because he wanted the be network money could bu "It sounds funny, but I' thinking about the millen um change. I've got to pr tect the Disney brand w into the future." Eisner h clothed himself in strong a mor for the media wa ahead. But in a business dynamic as entertainme power ebbs and flows. Hist ry shows it rarely resides one kingdom for long.

By Michael Oneal, wi Stephen Baker, in New Yo and Ronald Grover in L Angeles

America Online users can disc this Cover Story on Sunday, Aug. at 9 p.m. EDT in a BUSINESS W Online Conference.

THE MOGULS OF MEDIA

Who's who (this month) in the new universe of info and entertainment


REDSTONE

EDGAR BRONFMAN He's young, he's rich, he's now a player. The Seagram CEO bought his way into Tinseltown, spending $5.7 billion to acquire the troubled MCA studio. Few think he'll stop there.

MICHAEL JORDAN After weeks of semiprivate negotiations, Westinghouse's CEO sealed a deal to buy CBS for $5.4 billion on Aug. 1. Now what? He could sell off industrial assets to make Westinghouse a media power.

GERALD LEVIN He heads giant Time Warner's sprawling array of media assets, from magazines to film production to a nascent TV network. So far, though, he hasn't made it sing. A network bid probably isn't in the cards–at least not for now.

JOHN MALONE Heads Tele-Communications Inc.—a.k.a., TCI—with 11 million customers, the nation's biggest cable operator. Has weight. Throws it around. His deal to merge with Bell Atlantic fell through—probably a good thing.

RUPERT MURDOCH Used to be, all we expected were great tabloid headlines. Then, "Rupert Goes Global!" Fox TV is a fourth-place network, and it's gaining. Sky Broadcasting is making money in Britain; Star TV is taking on Asia.

MICHAEL OVITZ Somehow, "agent" doesn't fit. How about "archetypal power broker"? He shops stars, he brokers megadeals. Makes TV commercials, too. Many thought he'd leave Creative Artists to head Bronfman's MCA. He didn't.

SUMNER REDSTONE Five years ago, few had heard of him. Today, he has spun a movie-theater chain into Viacom, a $7.4 billion megaconglomerate. He bought Paramount; Blockbuster, too. So far, it's all clicking nicely.

TED TURNER Unorthodox, yes. That's the point: In a decade, he built a towering cable empire around the first "superstation." Cable News Network is tremendously influential. A broadcast network, though, remains elusive.

WELCOME TO THE ENTERTAINMENT ECONOMY

What's helping drive the U.S. economy? Check out Mortal Kombat. The bloodthirsty arcade and home video game has generated nearly $2 billion in revenues. On Aug. 18, a $35 million live-action movie will be released, followed by an animated video and a stage production. If the fad doesn't fade, an animated TV series may follow. "We've employed thousands of people doing all these Mortal Kombat things," says Larry Kasanoff, chairman of Santa Monica-based Threshold Entertainment Inc., which holds the media rights to the characters. And don't forget the merchandising rights, held by the Licensing Group in Los Angeles, which is doing deals for T-shirts, lunch boxes, and toys. By the year's end, the revenue generated by the one gory game and its spinoffs may approach that of the entire leather-goods industry.

As Mortal Kombat shows, the entertainment business is booming. Americans will spend nearly $400 billion, or about 8% of total consumption, on entertainment in 1995—everything from TVs and radios to cable fees, CDs, and gambling. Nearly 2.5 million people earn their living producing fun. In California, job creation in the entertainment economy has helped make up for devastating losses in aerospace. In foreign markets, entertainment has become a leading U.S. export. And by the end of the decade, according to the investment banking firm Veronis, Suhler & Associates, the media portion of the industry will be growing 6.8% a year, trailing only computers, travel, and telecommunications.

GREEN LIGHT. Most observers figure that the huge consolidations represented by Walt Disney Co.'s acquisition of Capital Cities/ABC Inc. and Westinghouse Electric Corp.'s purchase of CBS Inc. will accelerate the industry's long-term growth. The huge financial resources of these new enterprises, for instance, should increase capital spending for new technologies, says consultant David Wilkofsky, chairman of Wilkofsky Gruen Associates Inc.

Of course, the continuing consolidation of media businesses could result in some short-term slowing of job growth, but it won't stop the juggernaut. More laissez-faire federal laws will provide the telecommunications industry with vast new growth opportunities. Local TV stations will be handed enough extra airwave space to broadcast as many as six new channels. The media giants will be given a much freer hand to expand, resulting in greater economies of scale. Networks will be allowed to do their own production, and single companies will be permitted to reach as much as half the potential national audience.

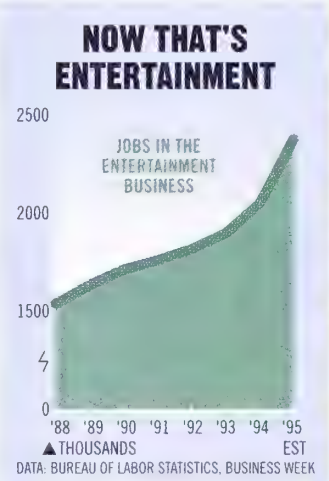
If booming domestic demand isn't enough, exports will spark even greater growth. Already, U.S. makers of films, CDs, videos, and the like are earning about 40% of their revenues—or about $9 billion a year—overseas. That share should increase, especially in Asia and Latin America. "The need for more and more product is just going to grow," says Gene F. Jankowski, a managing director at Veronis Suhler.

In the long run, all this expansion will mean more jobs—not only at giants such as Disney but also at the thousands of small production houses, animation companies, and video-game makers. While links between software companies and film studios are still tenuous, they have already spawned a new moniker for the ties between Silicon Valley and Hollywood: Siliwood.

GUCCI GULF. How's the pay in the entertainment biz? The gap in pay from movie mogul to mail sorter is perhaps bigger than in any other industry. But overall, entertainment pay isn't too bad. According to the Business Forecasting Project at the University of California at Los Angeles, the movie and TV industries pay an average wage of $47,000. That's less than the $53,000 that aerospace workers get, but well over California's $32,000 average. Others in entertainment, such as amusement park workers, earn close to the state's average.

As long as the U.S. economy is solid, consumers will keep demanding more movies, video games, and theme parks. Mortal Kombat may not exactly be the auto industry, but the grisly game and products like it will become a bigger and bigger piece of the U.S. economy for years to come. And the current merger boom may only speed up the trend.

By Howard Gleckman, with Mark Lewyn in Washington and Larry Armstrong in Los Angeles



SOME FUN With Americans alone spending $400 billion, there's no business like show business

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COMMENTARY

By Christopher Farrell

MEDIA CONTROL IS NARROWING. SHOULD WE WORRY?

Ah, media. Entertainment moguls are scrambling for partners and targets in a bold bid for industry dominance. For some, the sheer size and reach of these behemoths—Michael D. Eisner's Disney, Rupert Murdoch's News Corp., Sumner M. Redstone's Viacom, and Gerald M. Levin's Time Warner—raise troubling questions. Will the concentration of media power cut down on the diversity of information that nourishes a healthy democracy and a free-market economy? Will it stifle competition and creativity? Homogenize our culture?

In theory, it's possible—but not at all likely. Today's info-entertainment industry, marked by the historic confluence of media, computer, and communications technologies, is one that defies anticompetitive practices. No one really knows which companies and technologies will come out ahead, so everyone is rolling the dice. The result is an industry that requires more creativity than ever to make money. Any phenomenon that chills innovation, such as monopolistic behavior, quickly will be attacked by market forces. "If you stop being creative, someone will outflank you," says Richard Sylla, an economic historian at New York University.

DASHED AMBITIONS. Moreover, even as media companies get bigger, the potent combination of information technologies, the emerging global dataway infrastructure, and the global economy is vastly increasing the size of the market. At the same time, the media industry is being swept up in a wave of entrepreneurship. There's talk radio. Online services. Bloomberg. *Wired*. The Internet.

It doesn't look like a monopolized market, does it? "What strikes me is how incongruous are these boardroom-generated empires with what's going on in the Internet at the grass roots where people are pushing technology in extremely creative ways," says Eli M. Noam, professor of finance and economics at Columbia University. Adds Michael Schudson, professor of communications and sociology at the University of California at San Diego: "We have lots of sources of information even with all the agglomeration of media giants."

Moreover, one of the most striking lessons from the four prior great merger waves in U.S. history is how many of these corporate marriages ended up disappointing their builders. It's hard to find clear-cut success stories, especially when megadeals are struck in a takeover market with more than a hint of media madness and euphoria—like now. Expect a lot of dashed ambitions and divestitures in coming years.

RELAX The giants are chasing an ever-expanding market. And entrepreneurs are on the march

The media and communications market is more competitive than before. There's cable television, satellite broadcast, videos, and so forth. But that's not enough. Going forward, the best way to ensure diversity of content and wellsprings of innovation is for policymakers to encourage the media business to become even more competitive than it is now.

The problem is that Congress, currently rewriting telecommunications law, isn't being bold enough. Legislators still want stringent limits on rivalry. There's a danger that the Baby Bell monopolies will be preserved, for example, which might allow them to restrain new competitors in their local markets.

REAL DEREGULATION. Instead, Congress should embrace genuine deregulation: Allow the Baby Bells, wireless, the long-distance telephone companies, cable television, and any other player to compete without fetters. Get rid of limits on foreign ownership. Open up the airwaves to more entrepreneurs. "What we need is more competitors in more markets," says Thomas Hazlett, director of the program on telecommunications policy at the University of California at Davis. Of course, in the free-for-all that would follow, some companies would try anticompetitive practices or alliances, but the nation's well-established antitrust laws could deal with that.

Americans have always had a deep mistrust of Big Business and a distaste for monopoly. History has shown that it is very difficult to establish or sustain an oligopoly without government sanction. Competition may ensure we all read or hear or see a lot of schlock. But competition will also block the consolidation of media power and allow for the unexpected, the occasional jewel, that enriches our culture.

Farrell is a BUSINESS WEEK *economics editor.*

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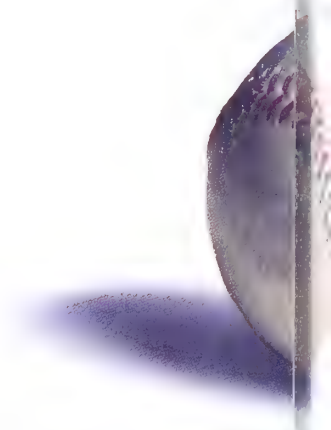

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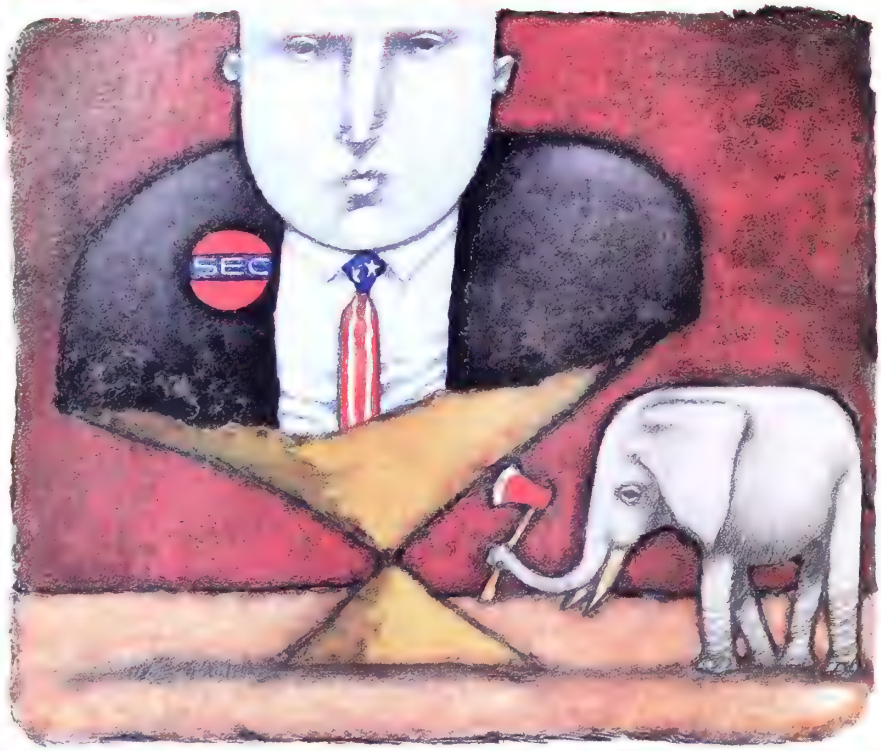


IN THE CROSSHAIRS

REVENUE CUTS A House committee lowered SEC fees on companies selling stocks and bonds. The agency also was told not to expect increases in its annual $300 million budget for the next 5 years.

SPENDING CURBS The House has undertaken a top-to-bottom review of the agency. It wants to trim fat and improve efficiency.

LITIGATION REFORM Over SEC objections, both the House and Senate pushed through a bill that would make it difficult for shareholders to sue companies. A final bill is due on President Clinton's desk this fall.

REGULATORY POWER House legislation would ease regulation and would require the SEC to evaluate the cost of rules to business. The GOP also wants to cut the number of commissioners to three, from five.

REGULATION

GUESS WHO'S GUNNING FOR THE SEC

GOP regulation-busters surprise the agency with an attack on its budget and power

As federal agencies go, the Securities & Exchange Commission is a blue chip. For 61 years, the regulator has managed to keep U.S. markets the safest in the world. As those markets have grown during the past decade, Congress has tried to keep pace by tripling the SEC's budget. Even detractors agree it has been money well spent.

You would think the SEC would be the last place targeted by reg-slashers on Capitol Hill. And you would be wrong. House Republicans have launched an all-out war on securities regulation. SEC Chairman Arthur Levitt Jr., regarded as one of President Clinton's most probusiness appointees, has discarded his Wall Street pinstripes for a flak jacket. And critics fret that a battle has begun that could weaken investor protections and provoke a major financial scandal.

GOP lawmakers plan to slash transaction fees paid by corporations, scale back corporate-takeover disclosure requirements, and loosen restrictions on the lending practices of brokerage firms. "These folks are seizing the day. They want to be revolutionaries," says Stuart J. Kaswell, general counsel of the Securities Industry Assn.

The latest salvo came on July 27, when Representative Jack Fields (R-Tex.) introduced legislation that would fundamentally change the SEC's mission. No longer would the commission's only guiding principle be investor protection. The legislation would direct the SEC to justify the benefit from any securities regulation against its cost to business. It also would ease rules in order to help companies raise capital. "Now is the time for a look at major reform," says Fields, chairman of the House subcommittee overseeing the industry.

> Chairman Levitt has discarded his Wall Street pinstripes for a flak jacket

Fields's bill caps an attack coordinated by several House leaders. In June Representative Thomas J. Bliley Jr. (R-Va.), chairman of the Commerce Committee, moved to freeze the SEC's budget for five years and halve SEC fees on companies selling stocks and bonds. On July 17, Daniel Frisa (R-N.Y.) was deputized by Bliley to launch a "top-to-bottom" review of SEC operations. The goal: "cutting out all regulatory deadwood."

Then there's the GOP litigation reform legislation moving through Congress which is expected to reach President Clinton's desk this fall. In addition to stamping out frivolous lawsuits, the measure would make it much tougher for investors to sue companies who have given misleading forecasts. Many SE

ulators feel the protections are too eeping and will increase its enforcent burden.

This anti-SEC whirlwind is smiled on by securities firms, smaller public npanies, and venture capitalists—all GOP donors. Unlike execs from big npanies, who have a greater toler-e for the SEC, they see the agency as impediment to capital formation. "An rhaul of securities laws is long over-," says Christopher J. Murphy III, of 1st Source Corp., a South Bend d.) bank holding company.

Nobody is more worried—or per-xed—than SEC Chairman Levitt, for-r head of the American Stock Ex-nge. After all, he was expecting udits from Republicans for a raft of posals right out of the GOP playbook. June, Levitt unveiled plans to re-e the time and expense of raising ital for small business. Instead of ering, Fields introduced his sweeping orms without alerting the agency ead of time—disregarding a standard rtesy. Levitt was left to issue a terse tement pledging SEC cooperation.

Insiders see the ferocity of the GOP's acks on securities regulation as not y a backlash against regulation but against the SEC chairman himself. publicans haven't forgotten that Le-raised $3.5 million for Clinton's cam-gn. And the securities industry ned over Levitt's high-profile attacks the commission system for brokers, ich Levitt charged was responsible widespread sales abuses. "It was wed as grandstanding," says a busi-s lobbyist.

KIND CUT. The Clinton Administra-n hasn't helped Levitt's cause, either. e White House, preoccupied with big tles over the budget and foreign pol-has failed to nominate anyone to fill three openings on the five-person nmission. The SEC had to approve an ergency rule change to allow the two ing commissioners, Levitt and Steven H. Wallman, to constitute a quorum they can conduct business. Many se-ities lawyers believe SEC actions with y two commissioners could be unds for a court challenge.

Fields's legislation takes a swipe at Administration by proposing to per-nently cut the commission to three mbers. Fields says the SEC has rare-operated with a full complement of nmissioners and the cut could save $2 lion a year in staff costs.

Like any bureaucracy, the SEC—with taff of 2,784 employees and a yearly dget of $300 million—certainly could streamlined. But even in the business nmunity, many think this is no time big cuts to the agency. The SEC is l relatively small. And last year, it raised total fees of $593 million, most of it gravy for the U. S. Treasury.

More important, the SEC's responsibilities have increased as markets expanded. "I don't think a case has been made for wholesale changes to securities regulation," says Richard Y. Roberts, who left the commission earlier this month. Fields and his fellow regbusters insist they're only interested in cutting costly red tape, not the SEC's policing powers. But if business is unfettered too much, the door will be left open for fleecing of investors, critics fear. "Nothing will damage markets more than converting the federal agency responsible for assuring [the markets' safety and fairness] into a cheerleader for Wall Street," scowls Representative John D. Dingell (D-Mich.).

The momentum, though, clearly is on Fields's side. He hopes to hold hearings in September aimed at passing legislation in the House by yearend. And the securities industry has a friend in Banking Committee Chairman Alphonse M. D'Amato (R-N. Y.), who could guide the effort through the Senate. Meanwhile, Levitt, who expected an approving GOP, is headed for the trenches. It could be a long siege.

By Michael Schroeder in Washington

FOLLOW-UP

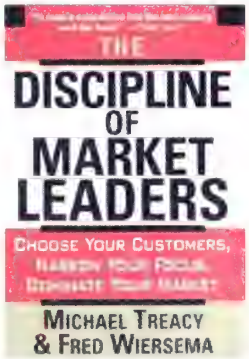
THE UNMASKING OF A BEST-SELLER: CHAPTER 2

Treacy may leave CSC, and the *Times* is reexamining its list

A BUSINESS WEEK investigation (Aug. 7) alleged that Michael Treacy and Fred Wiersema, authors of *The Discipline of Market Leaders*, along with the book's publisher, appear to have mounted a campaign to inflate sales and breach the integrity of the *New York Times* best-seller list.

Now, more news has emerged:

■ Charles McGrath, editor of the *Times Book Review*, concedes that *Discipline*, which spent 15 weeks on the nonfiction list, "may very well not have belonged on our list at all some weeks." McGrath says the *Times* is reexamining how it compiles the list and "my guess is that something probably needs to change." *Publishers Weekly* and BUSINESS WEEK also are considering changing how their best-seller lists are compiled.



■ In mid-August, Wiersema will take an unpaid leave of absence from Cambridge (Mass.) consulting firm CSC Index to write another book. A CSC spokesman says Wiersema has planned the move "for some time" but notes that he "will no longer have his title" while he is gone.

■ Treacy continues his association with CSC. But CSC sources say he may well leave within weeks. Treacy says that, long term, he's exploring other career options—perhaps at a nonprofit.

The alleged participants continue to deny taking part in any scheme. "There is no underhanded manipulation," Treacy writes in a letter. "There is simply a very good book, a ready audience and energetic marketing." In a letter of his own, Wiersema says: "I was never involved in or aware of any questionable actions." CSC says the book succeeded on its own merits. And publisher Addison-Wesley asserts that it did nothing unethical.

Treacy maintains CSC bought "roughly 10,000 copies" of *Discipline* in an ethical manner for clients, prospects, and use in seminars. But clients and others under Treacy's direction also purchased up to 40,000 more. Sources in whom Treacy confided say these orders were dispersed among bookstores to maximize sales figures reported to the *Times* for its list. Addison-Wesley says it's normal practice to build ties with booksellers by spreading orders.

One new example: When the Leigh Bureau in Somerville, N. J., a speaker's agency that works with the authors, decided to buy 1,000 copies, Treacy asked president Danny Stern to get them from bookstores. Stern noted that he could buy *Discipline* cheaper directly from the publisher. A source familiar with the conversation says Stern agreed to buy at higher bookstore prices only after Treacy promised Leigh he would be reimbursed for half the books. Stern won't comment publicly. Treacy acknowledges that Leigh was reimbursed but denies that any such conversation about where and at what price the books would be bought ever took place.

By Willy Stern in New York

LABOR

BREATH OF FIRE OR LAST GASP?

Mergers could bring new clout to unions–if they can get along

BETHLEHEM STEEL, 1946: *Soon, "united we stand" may include offshore worker*

For years, the United Auto Workers took the lead in contract talks with Caterpillar Inc. The International Association of Machinists, which represents a Joliet (Ill.) Cat plant, would copy the UAW settlement. But in 1991, the Machinists opened talks first and signed a contract on terms the UAW rejected. The auto workers went on strike and, partly because Cat's costs were lower under the Machinists' contract, it shifted some production to Joliet.

Four years later, the UAW is still steaming over that divide-and-conquer tactic. Indeed, such company ploys were one driving force behind the stunning July 27 merger announcement by three of the nation's largest industrial unions—the UAW, Machinists, and United Steelworkers. Their goal in creating a 2 million-member mega-union by 2000: to span multiple industries, gain a presence in every region, and add to their clout in bargaining, organizing, and political lobbying. "Corporations should sit up and take notice," says Machinists President George J. Kourpias.

OVERDUE. Corporate America isn't quaking in its boots yet. Spokesmen for General Motors, Ford, and USAir say it's too early to assess the impact of the merger. Other companies say the change is no big deal. "It won't mean much at the bargaining table," says a steel exec.

Critics see the merger as the last gasp of three dinosaurs, but it could help labor fend off extinction. And it's one more sign of an overdue shakeup in the labor movement. As Kourpias, UAW President Stephen Yokich, and Steelworkers chief George Becker were plotting their alliance, renegade labor leaders were mounting a challenge to AFL-CIO President Lane Kirkland. [illegible] Aug. 1. "There's no turning back," says Service Employees International Union President John J. Sweeney, who will run against new AFL-CIO President Thomas R. Donahue, Kirkland's No. 2, this fall. "Labor is taking a closer look at itself to figure out how to be more effective."

The merger likely will speed consolidation among other unions, whittling them down to 20 from 100—much like the mega-unions dominant in Western Europe. The two textile unions recently merged, and the two teachers unions are talking. Canadian auto workers, steelworkers, and machinists say they may do their own merger—and eventually meld with the U.S. behemoth.

Labor experts believe the new giant could have more leverage in negotiating companywide or industrywide contracts. Currently, the three unions often represent different plants of the same company and different companies in the same industries.

By pooling resources, the three unions also will have more money to organize. Richard A. Bensinger, executive director of the AFL-CIO's Organizing Institute, says a consolidated union with locals across the country and a hug concentration in many cities will b more effective in organizing. Rathe than focus on individual sites, a meg union could sign up all the plants of company. Or it could go after nonuni auto-parts plants or new minimills in region. "This type of synergy could rea ly change the power relationships i nonunion shops," Bensinger says.

TOUGH NUT. But first, the unions hav to pull off the merger—no sure thing One big stumbling block is the union different structures. For instance, whil UAW and Steelworkers' headquarte control negotiations, Machinists' regio al directors have a lot of power. Em ployers will resist giving wage and be efit parity to all workers in a compar —a likely goal of the merged union.

Consolidating locals will be touch too. Companies can fire managers in merger, but union members choose the local leaders. And what abo all those midlevel officials ey ing top jobs? Says Dave Ye taw, president of UAW Local 5 in Flint, Mich.: "Not only they have to climb up the la der at the UAW, but they ha to compete with the up-an comers at the other unions."

Still, there's nothing like little desperation to get t juices flowing. For the mome at least, labor leaders say th feel something they haven't f for a long time: hope.

Susan B. Garland in Was ington, with Kevin Kelly Chicago, Dave Sedgwick in D troit, and Stephen Baker Pittsburgh

MEGA-UNION BENEFITS — The gains labor expects from merging organizations

ORGANIZING Stop the waste of resources and energy expended when the three unions fight each other during membership drives. That should help their efforts to organize more high-tech industries.

BARGAINING Add negotiating muscle, especially at large companies that now deal with multiple unions.

LOBBYING Become a major political force, with a super-PAC and the capacity to organize massive grassroots campaigns.

INTERNATIONAL EXPANSION More effectively coordinate with Mexican, Asian, and other overseas unions to organize offshore U.S. plants.

DEALS

THE WHIRLWIND BREAKING UP COMPANIES

Merger mania, bah! The action in spin-offs is just as intense

Westinghouse and CBS, Disney and ABC, Kimberly-Clark and Scott Paper. In 1995, mergers are booming. But as the trips to the altar grab headlines, a quieter trend is reshaping the corporate landscape just as dramatically: spin-off mania.

"There's fever right now in the spin-off market," says Barbara Goodstein, a Rothschild Inc. vice-president who analyzes such deals. This year, 26 spin-offs with a market value of $16.7 billion have closed. An additional 20 deals, worth an estimated $18 billion, are pending, says Frederic Escherich, a managing director at J. P. Morgan & Co. In all of 1994, companies completed 27 spin-offs with a record value of $22.6 billion.

CORE STRENGTHS. Why such activity? The hot stock market has helped, as have tax laws that allow spin-offs to preserve far more value than would outright sales of the same businesses. More than anything, though, corporations are facing relentless investor pressure to rethink their business portfolios. Viacom International Corp.'s spin-off of its cable-TV operations, completed on July 25, will "ensure that Viacom and its shareholders receive the maximum value for assets that no longer fit our long-term growth plans," says Viacom CEO Frank J. Biondi Jr.

VIACOM VIEW: *It cut out its cable-TV unit*

A subsidiary isn't meeting expectations? Doesn't jibe with the latest strategic plan? Dump it. Focus on core strengths. That's what Tenneco is doing in gradually spinning off its Case Corp. construction equipment unit (page 62). Bally Entertainment Corp. is thinning down, too, transferring to shareholders its health-and-fitness business. "The day of the conglomerate is a thing of the past," says Lee S. Hillman, Bally's chief financial officer.

That's a bit of an overstatement. Yet even the quintessential conglomerate, $25 billion ITT Corp., said in June that it would split itself into three separate publicly traded companies, spinning off two divisions to shareholders. Investors, who have endured years of subpar stock performance, say they generally are pleased with the deal. "They've created three very strong companies for shareholders to choose from to invest in," says Matt Greenberg of Greenhaven Associates Inc., which holds several thousand ITT shares.

By yearend, Greenberg expects the three companies' stocks to be trading at a combined price of about $140. ITT shares now fetch $120. Pipe dream? In each of the past three years, shares of spun-off companies on average have outperformed the Standard & Poor's 500-stock index, says Rothschild's Goodstein. In 1994, shares of spun-off companies appreciated an average of 20.2% in their first year, compared with the S&P's rise of 1.5%. According to a J. P. Morgan study, parent companies outperform the market by 5% to 6% between the announcement date and the date of the spin-off.

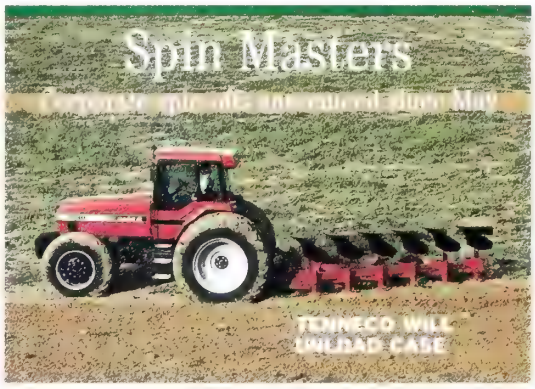
Case in point: Ralston Purina Co. spun off its breakfast-cereal division, RalCorp Holdings, in April, 1994, when the new entity began trading at 15. Today, RalCorp trades around 23. Ralcorp CEO Richard A. Pearce says that under Ralston-Purina, his business suffered because management and operations were focused on the company's bigger pet-food business. As an independent company, Ralcorp has been able to reduce costs, establish better control over operations, and allocate capital where it has the most benefit. "You'll see more and more of these spin-offs," he predicts.

All that, and tax advantages, too. In the typical spin-off, at least 80% of the shares of the subsidiary are distributed to holders. When structured this way, it's tax-free for both the investors and the company. "Spin-offs are the last great opportunity for companies to dispose of a business tax-free," says Brian Finn, co-head of mergers and acquisitions at CS First Boston Inc. That's one reason W. R. Grace & Co. is divesting its kidney-dialysis division, National Medical Care Inc., to shareholders. Although Grace had received a $3.5 billion bid for the unit from director Constantine L. Hampers, an outright sale would have forced an estimated tax hit of $850 million to $1 billion.

SPRINT: *Investors will get its cellular-phone unit*

Not all spin-offs work out, of course. At Aviall Inc., an aircraft parts distributor caught in an industry downturn, business is as lackluster today as it was before Ryder System Inc. spun it off in December, 1993. Back then Aviall shares traded at 16¾; it closed Aug. 1 at 8¾. But such mediocrity has been the exception: Enough spin-offs produce sufficient wealth to keep shareholders pounding on corporate doors for more.

By Stephanie Anderson Forest in Dallas, with Greg Burns in Chicago and Gail DeGeorge in Miami



COMPANY	SPIN-OFF
SPRINT	Cellular phone business
UNION PACIFIC	Oil, gas, and mineral unit
TENNECO	Case equipment unit
VIACOM	Cable-TV operations**
ANHEUSER-BUSCH	Campbell Taggart bakery
ITT	Broken up into three public companies
W.R. GRACE	National Medical Care dialysis division
TRAVELERS	Transport Holdings long-term care unit
HILTON HOTELS	Casino operations
KIMBERLY-CLARK	Tobacco-related businesses

**Telecommunications Inc. will acquire resulting company

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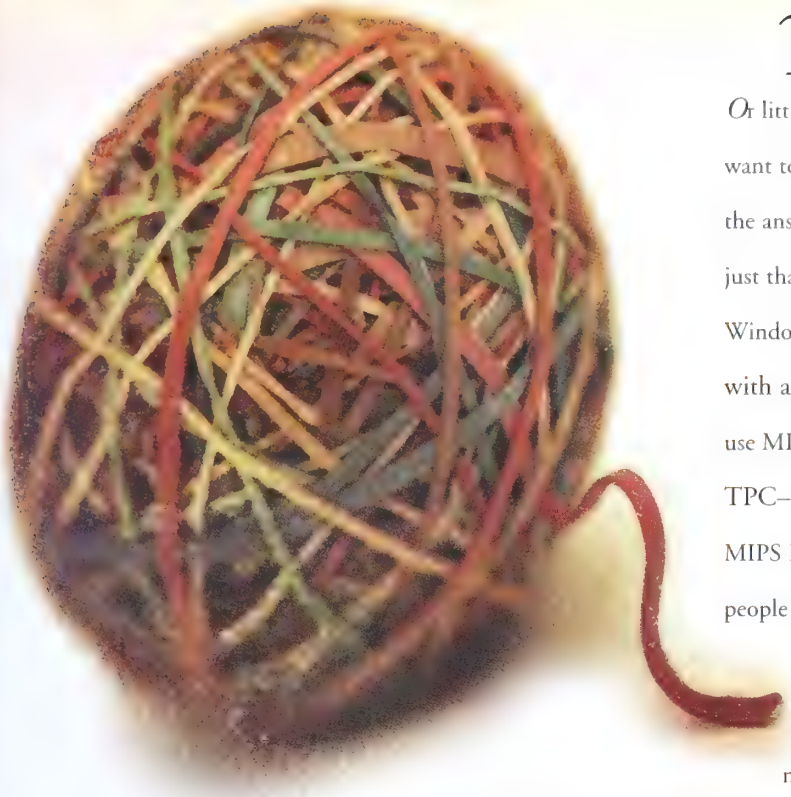

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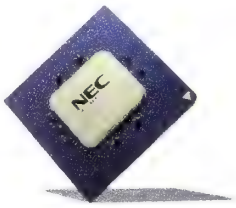

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AUTOS

AT GM, TWO HEADS MAY BE WORSE THAN ONE

Why its latest restructuring may just cause more turf wars

The questions just kept coming at Ronald L. Zarrella. General Motors' Corp. new marketing vice-president was live on a GM employee telecast on July 31, and anxious troops across the U. S. were grilling him about their company's latest reorganization. But before he could get to all the questions, Zarrella ran out of satellite time and blinked off the screen. "Every time you get one answer, three more questions pop up," says one GM midlevel insider.

Welcome to GM Reorganization 1995. This year's model—to be unveiled on Aug. 10—attempts to yoke GM's contentious car design, engineering, and manufacturing fiefdoms more closely to its powerful marketing kingdoms. The goal: to speed development of new models by 25%, to 36 months, slash engineering costs by 30%, and restore pizzazz to GM's bland brands. "We've got to do it all," says GM Chief Executive John F. Smith, Jr.

But in hallmark fashion, GM's efforts to simplify itself have created an ever more complex structure, one still riven by warring factions. GM's unwieldy new two-headed system is raising eyebrows. "This is bound to cause turf battles," says a former Chrysler Corp. honcho. "GM still seems to want an adversarial relationship between the guys who build 'em and the guys who sell 'em." Even GM admits it must shed its tradition of infighting. "Behaviors are going to have to change if this is going to work," says Zarrella.

Failure means GM will fall even further behind in the critical race to rush competitive new cars to market. Toyota Motor Corp. can bring out a new car in 30 months, vs. an average of 48 months for GM. Next year, GM finally will roll out a desperately needed new minivan, after six years in development. "GM has too many cooks making the stew," says J. P. Morgan & Co. analyst David Bradley. "It's a disaster." That's one reason GM's marketshare slipped another 1.3 points in the past year, to 32%.

GM's new recipe is a convoluted concoction of two parts Toyota blended with a dash of Procter & Gamble Co. It will appoint Toyota-style product czars, known in GM-speak as "vehicle line executives," or VLEs. These managers will rope together quarrelsome designers, engineers, manufacturing and marketing executives, and others to design and build cars and trucks—a system already adopted by the rest of Detroit. The carmaker also is setting up P&G-style brand managers who decide the pricing and market positioning of new models. GM will hold both halves of each powerful duo accountable separately for earning a profit on their vehicle.

Confused? You're not alone. Skepticism reigns inside and outside GM. "Why did they have to make it so complex?" wonders Lehman Brothers Inc. analyst Joseph Phillippi. "Why not just have one chief engineer with profit and loss responsibility, like Toyota?"

GM contends that its very size requires some complexity. A GM vehicle line may be sold under three or more nameplates, so no one manager can handle the task, says Arvin F. Mueller, GM's vice-president of vehicle development. The changes mark big progress, he argues: "We used to have hundreds of people making these decisions, and now we've got it down to two."

PUSHING THE LIMIT. Mueller won't say who gets the 16 to 18 coveted VLE jobs for a month or more, but they're expected to be young hotshot engineers or designers who have no ties to the old school. They're to stay in their jobs for up to 10 years—through two cycles of their vehicle—a far longer job tenure than GMers usually have.

Meanwhile, Zarrella says he'll begin interviewing candidates, including outsiders from packaged-goods companies, in September for about 36 brand-managers slots. As the new managers take control of individual models, the powerful heads of GM's car and truck divisions will lose much of their clout.

Still, this hardly qualifies as a revolution. GM top executives call the latest plan an evolution of a product-development reorganization begun 11 years ago—and tinkered with in 1988, 1992, 1993, and 1994. "They're moving in the right direction," says Jeffrey Liker, a University of Michigan expert on Toyota. "But they're still acting like GM." That's the problem: GM just grinds along in low gear. Given the rapid transformation it needs, it should be punching the accelerator.

By Keith Naughton and Kathleen Kerwin in Warren, Mich.

Is This A Plan That Can Work?

GM's new product development structure

JOHN SMITH JR.
PRESIDENT & CEO

RICHARD WAGONER JR.
PRESIDENT NORTH AMERICAN OPERATIONS

GROUP VICE PRESIDENTS

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- **DONALD HACKWORTH** — MIDSIZE AND LUXURY CARS
- **RICHARD "SKIP" LeFAUVE** — SMALL CARS
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16 TO 18 VEHICLE LINE EXECUTIVES

- CHIEF DESIGNERS
- CHIEF ENGINEERS
- MANUFACTURING MANAGERS
- BRAND PRODUCT DEVELOPMENT MANAGERS

GENERAL MANAGERS OF BUICK, CADILLAC, CHEVROLET, GMC TRUCK, OLDSMOBILE, PONTIAC, AND SATURN

SOME 36 BRAND MANAGERS RESPONSIBLE FOR MARKETING

BEYOND JUST BRUSHING: *The choices are endless—and often pricey*

STRATEGIES

THE SOUND AND THE FLUORIDE

Toothpaste, that once mundane business, is now a battleground

Toothpaste isn't one of those products most people gave a lot of thought to—at least until recently. Now, a host of new, high-priced brands and line extensions have whipped the once stable business into a lather. The pitch to consumers: pastes that look and feel different and promise cleaner, whiter teeth as well as fewer cavities.

The newcomers caught the traditional giants napping. Procter & Gamble Co., No. 1 in the U.S. with its Crest toothpaste, and Colgate-Palmolive Co., the worldwide market leader, focused so much on therapeutic benefits while ignoring the cosmetic pitch that they let rivals steal a march on them. That has led to a redrawing of the market-share lines in this $1.5 billion business. P&G, for instance, has seen a decline of as much as 10 points from its 40% share of the 1980s.

HIGH-PRICED REMBRANDT. Tiny Church & Dwight Co. was the first to sneak up on the sleepy giants in 1988. It grabbed 10% of the market with its venerable Arm & Hammer brand name, taking advantage of some dentists' recommendations to brush with baking soda. Den-Mat Corp., which previously sold its products directly to dentists, four years ago launched Rembrandt whitener at sky-high prices. Today, a 3-oz. tube of Rembrandt sells for more than $6.

Then Unilever PLC's Chesebrough-Pond Inc. unit really shook things up when it introduced Mentadent in October, 1993. The tooth-cleaner, dispensed from a bulky double-chambered pump, mixed baking soda with peroxide to produce fizz, and supposedly cleaner teeth. Mentadent didn't even look like toothpaste and at $3.69 cost almost twice as much as other premium brands. But it quickly caught on, helped by a blitz of TV ads. Chesebrough pumped a hefty $65 million into its initial launch and is still spending "quite heavily," says Marketing Vice-President Bill Ecker.

Mentadent is now the No. 3 toothpaste. It snagged 11.5% of the market in the 52 weeks ended May 28, figures research firm Information Resources Inc. "We went and broke the rules," says Gary R. Fraser, category director of Chesebrough's oral-care business.

The industry giants have begun to respond. Both Crest and Colgate have come out with their own versions of baking-soda toothpastes, a subcategory that now accounts for 30% of the market. Colgate recently mailed out 11 million samples of its new Colgate Baking Soda & Peroxide brand and has already won back market share. Arm & Hammer also offers peroxide versions of its baking-soda best-seller. Colgate launched its Platinum whitener a year ago, and Aquafresh is scoring with a lower-priced whitening product.

NOT ONLY CAVITIES. The big brands are also betting that promises of better health can still win sales. On July 25, P&G launched Crest Gum Care, with a reformulated version of stannous fluoride, the ingredient that won Crest the first endorsement from the American Dental Assn. in 1960. P&G claims that Gum Care can reduce gingivitis and bleeding of the gums by an average of 20% and 33%, respectively. Trade sources say the company is spending $40 million to back the new gold-boxed paste.

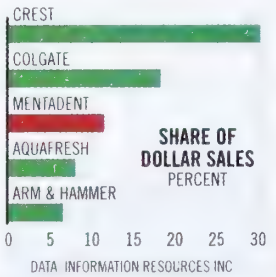
Colgate is seeking approval from the Food & Drug Administration to add triclosan to toothpaste. It already uses the antibacterial agent in an overseas brand called Colgate Total, sold in 90 countries as long-lasting protection against cavities, plaque, tartar, and gum disease. The FDA won't comment on the application.

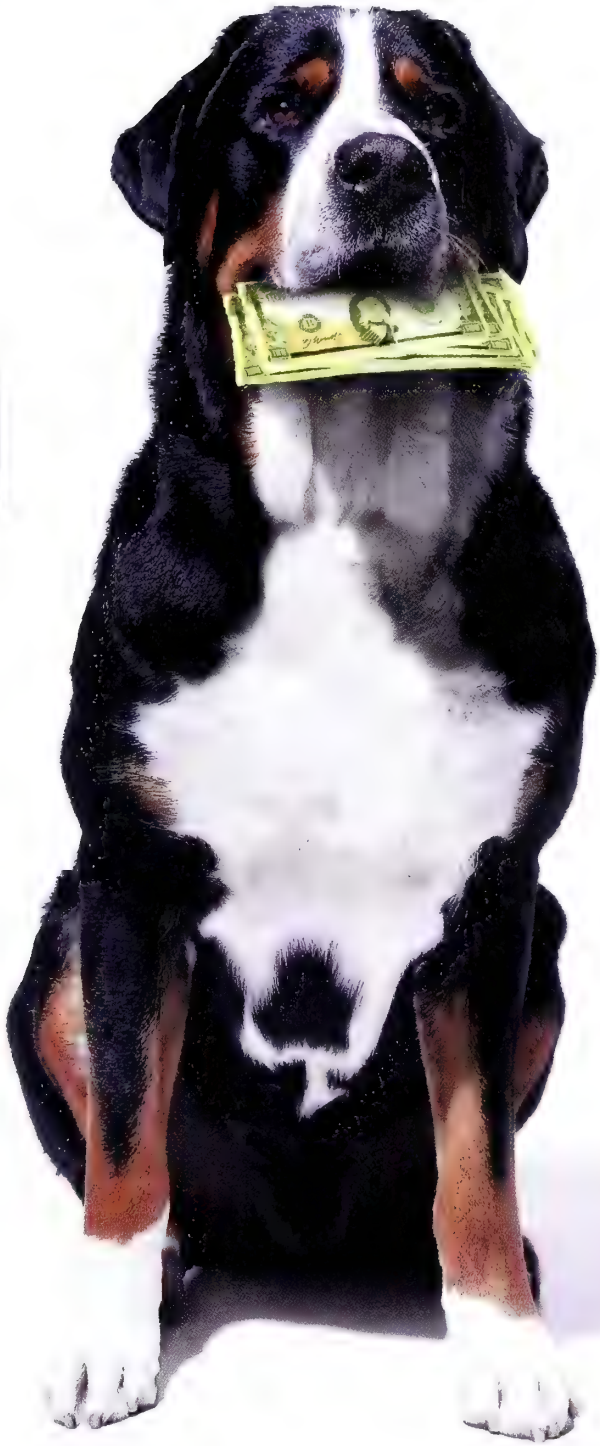
Meanwhile, Warner-Lambert Co., purveyor of Listerine mouthwash, will soon launch a toothpaste by the same name. The company is mum on the details but retailers and rivals say it will spend $27 million to introduce a premium-priced product with the black Listerine logo on a blue package similar to its Cool Mint mouthwash.

More than anything, the toothpaste wars demonstrate the power of advertising and image. After all, many dentists say that brushing with any good paste and flossing are the main keys to dental health. Want a dentist's advice on which toothpaste to buy? "Get one with some kind of fluoride, and that's on sale," says Dr. Max A. Listgarten, professor of periodontics at the University of Pennsylvania and member of an FDA plaque-advisory committee. "That's how I shop for toothpaste."

By Zachary Schiller in Cleveland

AN UPSTART RATTLES THE TOOTHPASTE TRADE





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EDITED BY KEITH H. HAMMONDS

A TOBACCO LAWSUIT HITS WALL STREET

FIVE TOP WALL STREET TObacco analysts became the latest targets of lawyers pursuing a massive class action against cigarette makers. In a highly unusual maneuver, plaintiff attorneys on Aug. 1 served analysts with subpoenas demanding that they turn over all records, memoranda, and other material used since April, 1994, to advise investors about such companies as Philip Morris and R. J. Reynolds Tobacco. Plaintiff lawyer John Coale says the move is intended to find out "what the tobacco industry was feeding" Wall Street about its nicotine-related research and whether analysts concealed important information. Roy Burry, an Oppenheimer analyst who was subpoenaed, says the plaintiffs are "barking up the wrong tree. Everything in my files is totally public information."

CAT AND THE UAW: A QUICK DEAL?

CATERPILLAR AND THE UAW may be inching toward resolution of their 14-month dispute. On Aug. 1, the company said it had met with UAW representatives. But union sources say top Cat and UAW officials actually have been meeting since July 5 in an effort to jump-start the stalled talks. Cat and the union could begin full-scale bargaining in days, say union sources, and a quick resolution appears possible. "I'm cautiously optimistic," says one UAW local leader.

MANY PHONES ARE RINGING AT MCI

MCI COMMUNICATIONS IS IN the throes of metamorphosis. Congress may soon let the Bell companies into MCI's backyard, the $70 billion long-distance business. In advance of the new competition, MCI announced plans on Aug. 2 to lay off up to 6% of its 42,000-person workforce and write off up to $800 million in old plants and equipment. It's also gearing up to crash the wireless party this year, announcing agreements with five companies, including AT&T's McCaw division, to resell service under its brand name. And MCI is considering breaking up its stock into three new entities.

J&J RETURNS TO THE U.S. IUD MARKET

EVER SINCE A. H. ROBINS' Dalkon Shield proved harmful to thousands of women, Johnson & Johnson has steered clear of the U. S. intrauterine device market—even as its IUD sales boomed overseas. On July 28, though, J&J quietly acquired GynoPharma, which has marketed the ParaGard copper IUD in the U. S. since 1988. GynoPharma CEO Roderick Mackenzie sees the deal as vindication. "People thought I was crazy when I put the IUD on the market," he says. Mackenzie plans to develop more women's products through a new outfit, Gynetics.

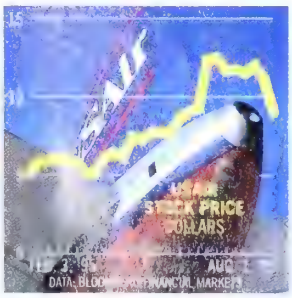
SPOOKS WITH SPREADSHEETS

YOU WOULD EXPECT THE head of the Central Intelligence Agency's cloak-and-dagger shop to be a veteran spook with years of field experience. But David Cohen, the new deputy director for clandestine operations, is a career economic analyst who once headed the agency office that monitors trade and technology trends. Cohen's July 31 appointment, some agency watchers say, underscores a concerted move by the CIA to elevate what had been a backwater mission—economic intelligence. Indeed, under President Clinton, the scope and volume of economic tasks undertaken by the CIA is unprecedented. A recent example: The agency briefed U. S. negotiators on Japan's position in the recently concluded auto talks.

CLOSING BELL

USAIR: MORE WOES

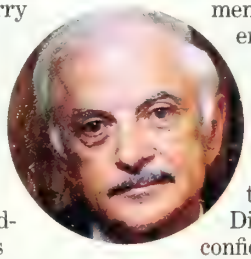
It looked so good. In July, after three years of losses, USAIR reported second-quarter earnings of $112.9 million. It was set to cut $2.5 billion in labor costs over five years under tentative agreements with its unions. But on July 28, after 18 months of talks, the deal collapsed, sending the stock down 15%. USAIR said its effort to hammer out simultaneous pacts was too ambitious. It now will have to bargain with unions separately when contracts expire over the next 17 months.



HEADLINER: HARRY MERLO

A CEO UNDONE BY FUNGUS

He nearly doubled Louisiana-Pacific's sales in three years, increasing profits five times. But ultimately, Chairman Harry Merlo, who resigned abruptly on July 31 with two other LP executives, was undone by mushrooms.



The forest products company has spent $46 million over 10 years to fight and settle claims that a wood-siding product sprouts mushrooms after installation. Also, a federal grand jury in Denver recently indicted LP and two former mill workers for alleged Clean Air Act violations and fraud, sparking several shareholder suits. Then there's a pending suit against Merlo and other execs by a former secretary alleging sexual harassment against female employees.

The litigation sparked an internal probe by a committee of outside directors. The upshot: Directors "lacked confidence" in management, said Donald Kayser, a director and retired Morrison Knudsen exec who will act as LP's chairman and CEO. Merlo, 70, a maverick well known in Portland (Ore.) for sporting Italian suits with cowboy boots and hammered gold jewelry, won't comment.

By Anita Marks

ET CETERA . . .

- The government grounded MarkAir, citing numerous maintenance violations.
- Intel's Pentium got cheaper. The chipmaker cut prices on the line by more than 20%.
- Cabletron is seeking to upset 3Com's $775 million offer for rival Chipcom.
- In 1990, DEC made money. On Aug. 1, it reported its first profit since that year.

DITED BY OWEN ULLMANN

THE WORLD FINANCIAL PACT: WASHINGTON PLAYS HARD TO GET

or 50 years, the U. S. has been the driving force behind expanded world trade—and a key player in forging every global pact. So where were the Americans on July 28, hen 43 countries signed a deal in Geneva to liberalize cross-rder trade in financial services?

Cooling their heels. The Clinton Administration was so conced that the agreement was stacked against the U. S. that easury Secretary Robert E. Rubin balked at the final deal. e unprecedented rebuke sends a clear message to trading rtners: The U. S., the world's most open financial market, will t tolerate a one-way street with other nations that still rricade their domestic service indusies. "The offers from other countries eren't sufficient," says Rubin.

Rubin & Co. are gambling that they n pry open other markets one by one, cause they have something emerging onomies desperately need: capital and ancial knowhow. The U. S. pullback om the pact "offers a point of deparre for future negotiations," says Depu- U. S. Trade Representative Jeffrey . Lang.

Most trade experts agree that the glol deal, the first negotiated under the w World Trade Organization, does little for the U. S. Banks, surers, and securities firms still have only limited access to e heavily protected markets of such miracle economies as alaysia and South Korea. The Clintonites fretted that joing the deal would have expanded access to the U. S. while reclosing opportunities to U. S. companies abroad.

AT IN HAND. The plan: Wait for foreign nations to come hat in nd. After all, Asian nations alone need $1 trillion to fince such infrastructure projects as bridges and highways. the need for financing will be overwhelming. Consider hailand, where manufacturers are setting up production road, because financing is more plentiful. To help fill the void, the Thais have promised to license five new foreign banks by 1997.

That's music to the ears of U. S. banks and insurance companies, which are moving aggressively to penetrate other protected but potentially lucrative markets such as India. There, the average middle-class consumer spends just $18 a year for insurance vs. $2,000 in the U. S. Cigna Corp., for one, believes India will loosen its state-run monopoly's grip on insurance. "The business sector will push the government to move more quickly," predicts H. Edward Hanway, president of Cigna International. Hanway plans to open a New Delhi office by next spring.

RUBIN: *U.S. capital will win friends*

Still, some execs who have wrestled with foreign barriers doubt that the lure of capital alone will do the trick. They want bilateral negotiations backed by U. S. threats of retaliation. "The idea that market forces will prevail is unduly optimistic," says Robert C. Pozen, general counsel for Boston-based Fidelity Investments.

In Korea, Fidelity has been barred from marketing funds denominated in the Korean won, or from building its own distribution network. Fidelity met similar obstacles in Japan, where it had to meet steep capital requirements and was excluded from bidding for the bulk of $1 trillion in retirement savings. But thanks to a bilateral deal signed last January, Japanese regulators slashed Fidelity's capital requirement by 75% and let U. S. fund managers make a bigger play for corporate and pension funds.

By walking away from the WTO pact, the U. S. showed its resolve to play on its terms. Now comes a greater challenge. The Clintonites must persuade America's trading partners to embrace reciprocal trade. Otherwise, the U. S. will be an open market—but the odd man out.

By Dean Foust, with Bill Javetski in Paris

CAPITAL WRAPUP

TRADING PLACES?

▶ Commerce's top trade hand, Jeffrey E. Garten, stunned fellow trade negotiators on July 31, when he suggested in Tokyo that the U. S. should be less confrontational in future disputes with Japan. The remarks were seen as a slap at U. S. Trade Representative Mickey Kantor's hardball tactics and were quickly repudiated by Administration higher-ups. Colleagues say Garten's swipe is evidence he may have his eye on a new job: dean of Yale's business school.

PEPPY LOBBYING

▶ The dietary supplement industry is launching an energetic campaign in Congress for more leeway to advertise health benefits. Last fall, it won legislation allowing some vitamin health claims approved by the Food & Drug Administration. Now, with anti-reg Republicans ruling Congress, the industry is pushing for a bill that lets them make claims without a prior O. K. from the FDA, which would police for false statements.

DON'T BANK ON REFORM

▶ House Banking Committee Chairman James A. Leach (R-Iowa) is scrambling to save his banking reform bills. Leach's measures have stalled over controversial new rules on bank competition in the insurance business. To break the stalemate, bankers say they'll support the bills without any insurance provisions. But insurance agents are fighting this plan for fear an amendment protecting them from bank competition would be dropped.

JAPAN

ARE THE JAPANESE READY TO BAIL OUT THE BANKS?

The collapse of a Tokyo credit union could change public opinion

It was a scary reminder of the Japanese financial system's fragility. On July 31, roughly 1,800 depositors jammed the 24 outlets of Tokyo's biggest credit union after a newspaper reported that Cosmo Credit Corp. was about to collapse. Television coverage showed throngs of Japanese busily withdrawing $900 million, or roughly 18% of Cosmo's deposits, in just two days.

The Cosmo meltdown may be the opening act of one the most massive transfers of wealth in postwar history, as the government assumes the cost of Japan's post-bubble cleanup. Already, the bank run seems to be coalescing public and political support for a taxpayer-backed makeover of the Japanese financial system. Estimates vary, but the ultimate cost could run as high as $230 billion, figures Yukiko Ohara, a banking analyst with UBS Securities Inc. That's significantly more than the U.S. thrift bailout.

To pull off the restructuring, the Finance Ministry is trying to line up emergency backing for the weakest institutions: overextended credit unions, agricultural cooperatives, and home-lending institutions. On Aug. 2, it loosened restrictions on foreign currency investments by huge life insurers, a move that could bolster the Nikkei stock average and bring much needed relief to bank balance sheets. The yen weakened to 91 against the U.S. dollar, bringing hope of broader economic relief. The combination of bold moves may represent a turning point in Japan's efforts to come to grips with its financial problems.

RESCUE PACKAGE. In short, after spending the first half of the 1990s cloaking the true depth of bad-debt woes, Finance Ministry and Bank of Japan officials have now set an ambitious target of cleaning up the bad-debt mess by the year 2000. They plan to refloat and restructure the nation's troubled lending institutions, possibly using a Resolution Trust Corp.-style entity to handle asset sales. The pressures to act have become nearly overwhelming. "If they lose more time, the problem will only grow more serious," warns Toyoo Gyohten, chairman of Bank of Tokyo Ltd. and special ministry envoy on international finance.

The Cosmo crisis flared after a news report suggested that the credit union's soured late-1980s real estate lending spree was about to strangle it. Finance officials worked frantically over the weekend to throw together a rescue package. By Monday, July 31, the ministry had lined up hundreds of million of dollars in emergency money to cover deposits, and the Tokyo city government committed an additional $250 million.

In retrospect, Cosmo had been ripe for a fall. With more than 70% of its $5 billion loan portfolio in tatters, the credit union had been on everybody's watch-list for months. Its reliance on promotional campaigns, which offered attractive interest rates on large deposits, made it especially susceptible to a run. Ironically, the Finance Ministry may have hoped for just such a crisis to help convince the Japanese public of the severity of the bad-debt woes. "I think it was a sort of gamble to allow a managed panic," says Koyo Ozeki, an analyst with IBCA Ltd. in Tokyo.

TOUGH SELL. It may have worked. Until recently, Finance officials have had little luck selling the public on a taxpayer-funded plan to bail out Japanese lenders. Analysts estimate that their cumulative bad debt may run as high as $800 billion

UBLIC SUPPORT: *The Finance Ministry may tap into private savings*

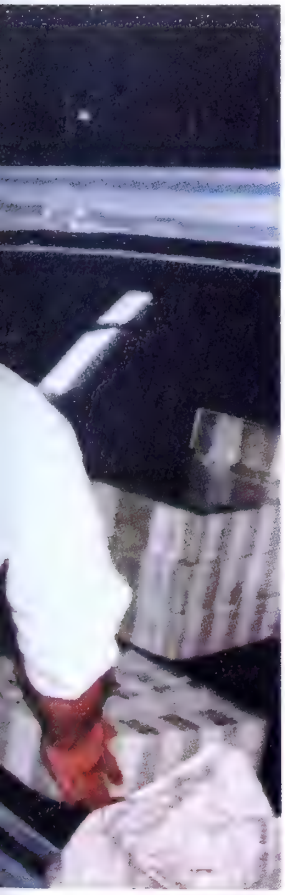
THE SCOPE OF A BANK RESCUE

Here's how Japan will raise an estimated $230 billion to restructure its battered banking system:

- Emergency credit lines from the Bank of Japan
- Bond sales by the Finance Ministry to create a bailout fund
- A Resolution Trust Corp.-style organization to sell off bad debt
- Tax breaks and low-interest loans for strong banks that take on weak institutions

DATA BUSINESS WEEK

$1 trillion. Understandably, most Japnese had little sympathy for the real state tycoons who made one deal too any in the 1980s or for the greedy ankers who backed them. But with eir own deposits at stake, consumers e likely to rally behind a rescue plan. Still, it will be tricky to figure out here the money will come from. The inance Ministry hopes to tap $2.36 trilon of private savings in the Postal avings System but faces fierce political position. Likewise, such tactics as bond financing and tax hikes are a tough sell with the ministry's Tax Bureau officials, who are worried about the cost of the Kobe earthquake cleanup and caring for Japan's graying population. Complicating Finance's strategy is the political mess. Prime Minister Tomiichi Murayama's Social Democratic Party received a thrashing in upper-house elections on July 23. And a power struggle has emerged among Liberal Democrats, the coalition's biggest party, between Foreign Minister Yohei Kono and International Trade & Industry Minister Ryutaro Hashimoto.



JUST-IN-TIME DELIVERY: *Cosmo needed cash*

Most Japanese have resented risk-taking real estate tycoons and their bankers, but with their own deposits at stake, they may rally behind a rescue plan

But the Cosmo crisis seems to have bolstered Finance's rescuing hand. The small guys will be first. Credit unions, agricultural co-ops, and housing loan companies, or *jusen*, represent only 15% of Japan's domestic lending, but they are the least regulated. Bailing them out may well end up costing some $100 billion, according to Ohara. At least seven other credit unions have gone belly-up or been absorbed by stronger lenders since 1991. And many more rescues are expected. Although the struggles of Japan's top 21 commercial, long-term credit and trust banks are the most visible, the prospect of homeowners and farmers losing their shirts is more painful.

The woes of the *jusen* also loom. Similar to U.S. savings and loans, they were set up in the '70s to supply credit to homeowners. Because of a disastrous lending spree to golf-course and condo developers, some 50% of the industry's $130 billion loan portfolio is underwater, says J. Brian Waterhouse, a senior analyst with James Capel Pacific Ltd.

BOTCHED JOBS. The final hurdle in cleaning up the financial mess will be dealing with the huge money-center banks, staggering under bad debt to the tune of $390 billion. Lately, Finance officials say they are willing to let insolvent banks go under. But few believe the government would ever permit a major player to fail. Indeed, the Aug. 2 move to liberalize foreign investment flows was directed primarily at life insurance companies, but the banks also could be major beneficiaries. If their portfolios of stock holdings increase in value, that will give them greater flexibility in managing their bad debts.

But it's crucial that the public also pitch in. That's why the Cosmo fiasco served its purpose—in sharp contrast with two earlier botched bailouts. In December, Finance and the BOJ walked right into a scandal when they orchestrated a $2 billion bailout of the Tokyo Kyowa and Anzen credit unions. It turned out that Tokyo Kyowa Chairman Harunori Takahashi, a bubble-era real estate mogul, had steered depositors' cash into his own real estate ventures.

With tripwires going off across Japan's financial terrain, a reluctant public may be persuaded to part with some serious bailout cash. Top financial policymakers are counting on that to prevent the post-bubble banking crisis from hobbling Japan well into the next century.

By Brian Bremner in Tokyo

CHINA

CHINA: HOW DO YOU HANDLE A WAKING DRAGON?

Neither Western confrontation nor Asian diplomacy is working

In recent months, China has stridently reasserted its claim to the entire South China Sea, sold sensitive missile technology to Pakistan and Iran, arrested U.S. human-rights activist Harry Wu, and fired six missiles into waters north of Taiwan. Yet when U.S. Secretary of State Warren M. Christopher and officials of 18 Pacific Rim nations met in late July to discuss security concerns, there were few unkind words for Beijing. Indeed, in speech after speech at the opulent hilltop estate of Brunei's Prince Mohamed Bolkiah, foreign ministers took turns lauding Beijing's statesmanship.

DAMAGE CONTROL: *Christopher and Qian*

But appearances are deceiving. Anxiety is deepening in Washington and in the capitals of China's neighbors over how to deal with the temperamental emerging superpower. As China's economic and military might grow, most countries regard good relations as essential. How, then, to deal with its belligerent behavior? Washington's approach has been confrontational. Southeast Asia has preferred quiet diplomacy.

> "China is having a difficult time [with] the contradiction between its military goals and its long-term economic goals"

DEAF EARS. At the Brunei meeting, it seemed clear that neither style is accomplishing much. China softened its rhetoric and said it is willing to negotiate over resources in disputed seas. But spokesman Shen Guofang reiterated that "on the question of sovereignty, China doesn't make any concessions."

Comments like that are slowly forcing the outside world to realize that "containing" China, as advocated by some U.S. conservatives, won't be easy. As its economy continues to grow at a 10% clip, China's elderly hard-line leaders are pressing their regional goals with greater confidence. At the same time, they worry that jealous foreigners, led by the U.S., are plotting to undermine China's emergence. That fear was reinforced by the June visit to the U.S. by Taiwan President Lee Teng-hui.

Thus, while Christopher raised such issues as missile-technology sales and human rights with Chinese Foreign Minister Qian Qichen, says a senior U.S. official, "the focus was on the fundamentals of the relationship." In an attempt at damage control, Christopher reiterating that America recognizes China's sovereignty over Taiwan. And though he suggested that China's detention of Wu ruled out a meeting between Bill Clinton and Chinese President Jiang Zemin in New York this fall, he discussed the possibility of a summit at November's Asia-Pacific Economic Cooperation forum in Osaka. Yet before Christopher even left Asia, Beijing announced that it was expelling two U.S. military officials for alleged spying.

Americans aren't the only ones groping for a China strategy. Southeast Asians have quietly negotiated one-on-one with Beijing over competing claims to islands in the Spratly chains. But a wake-up call came when the Chinese navy in April erected structures on Mischief Reef, off the Philippine coast. The Philippines retook control, prompting furious threats from Beijing. Soon afterward, China also issued a map indicating that it owned the Natuna Islands, nearly 2,000 miles from the mainland and the site of Indonesia's $35 billion natural-gas project involving Enron Corp. Says Ronald N. Montaperto, senior fellow at the Institute for National Strategic Studies in Washington: "The Southeast Asians were forced to confront the fact that China won't be as accommodating as they thought."

TARNISHED TRADE? At Brunei, the six Association of Southeast Asian Nations (ASEAN) countries did succeed, for the first time, in getting China to discuss the issue with the entire group, undercutting its strategy to keep its neighbors from uniting. That may be a sign that Beijing fears it will hurt key economities unless it backs off. "China is having a difficult time trying to straddle the contradiction between its military goals and its long-term economic goals," says Douglas Paal, president of Washington's Asia Pacific Policy Center.

But over the long term, the issue can't help but reemerge. At the rate China is adding jet fighters, battleships and missiles, within a decade, it should be able to seize and hold distant islands. Until then, expect China's foreign-policy stance to continue to alternate from "hard to soft to hard to soft," says analyst Montaperto. "When the Chinese can assert their will, they will do so."

As Southeast Asian leaders realize this, they are quietly urging the U.S. to become more visibly involved in South China Sea disputes. Taiwan and Japan also want the U.S. to deter China without appearing to be part of an anti-Chinese conspiracy. But given the get-tough climate in Washington, a strident U.S. response could actually raise the risk of driving China deeper into its fear of encirclement.

By Bruce Einhorn in Brunei and Pete Engardio in New York, with Dexter Roberts in Beijing.

CLEANING UP: *So far this year, 60% of operating earnings come from chips*

HE NETHERLANDS

HILIPS MAY BE PUTTING OO MANY CHIPS ON CHIPS

mmer is counting on its semiconductors to sustain growth

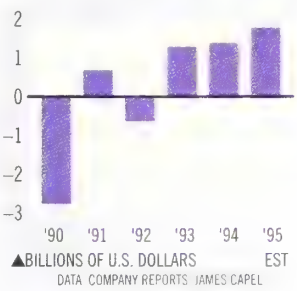
ive years ago, when Chief Executive Jan D. Timmer of Philips Electronics was looking to stem his company's horrendous losses, many urged n to dump the semiconductor divin. But the taciturn, tough-as-nails itchman saw value in the money-los- subsidiary and targeted other plants d divisions for sale or shutdown. Now, nmer's vision is paying off. In late ly, the company announced that first-lf profits had more than doubled, to 56 million, from the same period in 94 (chart). The once-lagging business semiconductors contributed some 60% operating profits.

The chip recovery buys the $39 billion mpany time, as Timmer switches from survival plan to a growth strategy. r starters, he hopes Philips' newfound ength in chips will help revitalize the nsumer-electronics business, which acunts for 35% of sales. Timmer also ns to build strength in software to mpete in future multimedia markets. 2000, he wants 25% of revenues to me from new-media operations, inding cable TV, film, and software. mping the losers will continue: Philips selling a chunk of its communications siness to AT&T.

LD SWINGS. Timmer's idea is to be a g player in the new but still fuzzy a of converging technologies. With edia, telecommunications, and computs rapidly melding together, Philips can ply its chip skills to new generations of products, from smart car-navigation systems to wristwatch phones. "Semiconductors are the jewel in the crown of Philips," says Timmer.

Timmer's strategy could be hobbled if the boom in semiconductor demand suddenly turns into a bust. But many market researchers insist that the historically wild swings in the semiconductor market are easing, since demand for chips in everything from personal computers to cars and washing machines is entering a sustained period of growth. In 1984, semiconductors represented 6% of the retail value of electronic goods. Today, the number is up to 23%, according to market researcher Dataquest Inc. "Chips are the driving force in consumer electronics and multimedia," says George Verghese, electronics analyst at Deutsche Morgan Grenfell in London. "That's Philips' strength."

PHILIPS' PROFITS REBOUND



In multimedia, Philips is aiming to build on its strength in chips to invest across the board in hardware, software, distribution, and content. It's working on everything from set-top boxes for interactive-TV to personal-computer-compatible compact music disks with advanced video features. Philips' Trimedia division in Sunnyvale, Calif., is developing a next-generation chip that could help bring down the cost of set-top boxes and videoconferencing.

Timmer's toughest challenge is to build up muscle in software and content—the games, interactive books, and other products that make people buy the hardware. "Philips is a box company that has realized it doesn't want to make [just] boxes," says Russ Mould, an analyst at S. G. Warburg in London. Timmer has already seen Philips' compact-disk interactive (CD-i) machine flop disastrously, largely because of limited software. "Philips is seen as hopelessly inept" in multimedia, says a former Philips executive. Yet Philips management, though hunting for a major software firm, has also avoided several richly priced deals. "We're careful not to get carried away by euphoria," says Chief Financial Officer Dudley Eustace.

SEXY STRATEGY. Philips does have content in music subsidiary PolyGram, which has ventured into film with such movies as *Four Weddings and a Funeral*. PolyGram wants to boost film activities to 25% of total revenues, up from 13% today. In January, it bought Los Angeles' International Television Corp., a film-and-TV library containing 10,000 hours of programming. Philips has also entered a joint venture with Denver's United International Holdings Inc. to create Europe's largest private cable-TV operator, UPC.

It's a sexy strategy, but it's unclear when profits will materialize from all the new ventures. PolyGram, while profitable in music, is losing millions in the film business. Other new projects are also in the red, including a novel chip-based car-navigation system, now being installed in some of BMW's priciest models. And in the race to create a standard for digital video disks, a promising new medium, a Philips-Sony effort may wind up losing out to Toshiba, whose format Hollywood is backing.

At least Philips is healthy enough to invest. The company aims to spend $650 million annually to expand semiconductor production through 2000. The growth is designed to move Philips Semiconductor from a global No. 11 to the No. 7 rank. Timmer is boldly pushing on. But Philips' future is a work in progress.

By Gail Edmondson in Eindhoven, with bureau reports

RUSSIA

RUSSIA'S REALLY HOSTILE TAKEOVERS

Organized crime is shooting its way into Big Business

Oleg Kantor, president of Moscow's Yugorsky Bank, liked to spend his free time at his luxurious dacha outside Moscow. Until July 20. That morning, police discovered the 40-year-old banker's body with his throat slit and a big hunting knife sticking out of his chest. Moscow executives believe that the murder was a contract killing connected to his bank's business with a profitable aluminum company.

It's a growing trend in Russia: Organized crime is going after Big Business. Murders of executives have soared in the last year, suggesting that criminal groups are no longer content with running protection rackets. To infiltrate big enterprises, Russia's crime lords have tried several methods. In some cases they extend loans on favorable terms to enterprises—and later demand management control. In other cases, they try to gain influence indirectly, by taking control of the company's bank. Or they simply threaten top executives. Says Vladislav V. Selivanov, first deputy chief of the Moscow City Police Dept.'s organized-crime division: "Mafia groups are trying to gain inroads into financial services and raw materials like oil and gas, diamonds, gold, metals, and lumber."

LIVE BY THE GUN

Private businesses are hiring security professionals in a country where corruption was rife, but violence rare

Russia's lawmakers finally seem to be taking the threat seriously. On July 12, just eight days before Kantor's death, the Russian Duma passed a measure that would make organized criminal activity illegal for the first time in Russian history. The bill targets crimes not covered by existing Russian law, such as money laundering, financial scams, and racketeering (table).

It is an important step forward in combating the criminal gangs that have spread their tentacles throughout Russia's economy. Interior Ministry officials estimate that over 40,000 enterprises are connected in some way to organized criminals. As many as 10 of Russia's 25 big banks also may have Mafia connections, observers say.

Lawmakers particularly hope to stop criminals from tightening their grip on profitable export industries such as aluminum and oil. Several murders have occurred in the Tyumen region in Western Siberia as rival groups fight over Russia's oil riches. Since the beginning of April, at least four aluminum executives have been murdered or injured. The most recent incident was on July 31, when the 32-year-old Moscow representative of the Volgograd Aluminum plant was shot in the head in his apartment building's hallway.

Moscow observers see the murder as one more sign of crime bosses trying to gain control of the activities and finances of the aluminum business. The earlier stabbing of Kantor closely followed the murder of Yugorsky Bank's vice-president, Vadim Yafyasov, who w responsible for its business with alum num companies. Yafyasov had previou ly been commercial director of the gia Krasnoyarsk Aluminum plant.

Russian police also worry that pr

ssional criminals are sinking their hooks o the defense industry. In a single raid early July, Moscow police seized 154 tomatic weapons from a group that d embezzled them from a weapons ant in the Urals city of Izhevsk. Crim- al groups are also stealing and export- g strategic materials from Russian de- nse plants. According to Selivanov, iminals may be colluding with defense ant managers to earn money by storing reign radioactive waste on Russian soil.

REIGN VICTIMS. As attacks increase, reign ventures have not been spared. n July 20 in Moscow, a John Bull pub anchised by the British company Al- d-Domecq was bombed with an anti- nk mine—for no apparent reason, the vners say. But small businesses such retailers, restaurateurs, and consu- er-goods importers are increasingly lnerable to extortion. Big multina- onals with investments in Russia ven't been touched by violence yet.

To many Russians, the explosion in olence is a disastrous consequence of e shift to a market economy. While vi- ent street crime was rare when Com- unist commissars ruled Russia, cor- ption and criminality are deeply oted in Russia's history. Russians have id bribes to government officials for centuries. Official corruption grew even worse in the Soviet system, when state officials controlled all economic activity. Post-Soviet officials are no different. "Organized crime exists where it finds government support," says Alexander Gurov, former head of the Interior Ministry's Organized Crime Dept.

In fact, Russian lawmakers have voted down attempts to push through anticorruption laws since 1992. When the Federation Council, Russia's upper house of parliament, returns from vacation in October, it will take up a new anticorruption bill passed by the Duma. The Federation Council also will vote on the Duma's new organized-crime law and measures to strengthen Russia's criminal code. Taken together, the package would provide a much-needed legal base to prosecute leaders of criminal gangs, the banks that launder dirty money, and officials who take bribes.

DIE BY THE GUN

As shootings and bombings of executives soar, lawmakers are taking action

Still, Russia's lawmakers and leaders will have to go much further. With the judicial system in shambles, many businesspeople feel they have no choice but to use Mafia groups as "contract enforcers." Guns, bombs, and grenades take the place of arbitration courts. And in a country where taxes can approach 100% of revenue—let alone profits—businesses find it almost necessary to evade taxes, making them easy targets for blackmail by the Mafia. Says Yuri Schekochikhin, a reporter for the newspaper *Literaturnaya Gazeta*: "If we want to stop crime, it's very important to change the tax law and take other measures to create economic stability."

As a result of the country's rapid economic transformation, the boundary between legality and illegality in Russia has probably never been as blurry. In the early years of reform, managers and bureaucrats illegally used Communist Party money or state assets to set up banks or launch businesses. Now, it's difficult to distinguish these Soviet survivors from true entrepreneurs who pulled themselves up by their bootstraps. Nearly everyone broke the law in some way.

But some want to go legitimate. They've amassed big enough fortunes that they now want to be seen as respected businesspeople. Some may even run for parliament in December. Says Schekochikhin: "They want to get clean, like America's early robber barons."

Others draw a much darker scenario. Retired Russian crime fighter Gurov worries that Russia may have already lost its war against organized criminals because they already control many big enterprises and banks. The violence itself is likely to drop once the spoils of privatization of Russia's most lucrative industries are divvied up. But the big question is: Who will end up running Russia's industry? It could turn out to be honest businesspeople—or organized criminals.

By Patricia Kranz in Moscow

Russia's New Plan To Fight Crime

OUTLAW money laundering, financial scams, and bribing private individuals

PENALIZE leaders of organized crime groups with 10-15 years imprisonment and confiscation of property

PROHIBIT arms trafficking and illegal possession of weapons

DATA BUSINESS WEEK

EDITED BY CHRISTOPHER POWER

SPAIN: GONZALEZ SEEMS DOOMED BY SCANDAL AND A SICK ECONOMY

Spanish Prime Minister Felipe González seemed calm and self-assured on July 27 when he pleaded for his political life before parliament and a nation glued to TV screens. González had called a special parliamentary session to answer charges that he condoned the assassination of Basque separatists in the 1980s.

For now, the Socialist Premier's centrist allies won't abandon him. But as Madrid office workers linger in cafés to argue politics these hot afternoons, no one doubts that the 13-year rule of Spain's only leftist leader since the death of Franco is almost over. Spaniards, who once loved the dashing González and grew richer in the early years of his administration, are now sick of 22% unemployment and scandals that include influence peddling and pilfering public funds. At his allies' insistence, González promises elections by mid-March. They may come sooner, if the Basque scandal worsens. At this point, the right seems bound to win. The "deadweight" of corruption dooms the Socialists, says Domingo García, economist at the Madrid Stock Exchange.

GONZALEZ: *Out by March?*

"OLD WAY OF THINKING." Should the right win, Spain's new ruler will almost certainly be José María Aznar, a slight, mild-mannered former tax inspector who heads the conservative Partido Popular. Nicknamed "El Bigote" for his big black mustache, Aznar has skillfully moved his party from its extremist origins in Franco's Spain to a center-right position. Aznar, 42, will use a "shock plan" to rejuvenate the sickly economy, promises Cristóbal Montoro, the PP's economics specialist in parliament.

Many of Aznar's plans ape those of France's new conservative regime. Aznar would cut employers' social taxes from 27% to 24% over five years. He would loosen stiff labor regulations, which inhibit hiring and discourage foreign investors, who nowadays often prefer the lower costs of Eastern Europe, Portugal, or even Morocco over Spain. Aznar would privati state-owned companies faster and try to switch part of t state pension system to the private sector. He also wants to c the top personal income tax rate from 56% to 40%, while ra ing the corporate rate from 35% to 40%. All this assum workers don't stage strikes, which they have done before slow Socialist reforms.

Some observers see Aznar loosening state spending create jobs, even though higher deficits could jeopardi the country's early admission to a Europe monetary union, one of González' cherish goals. "Fiscal policy might be relaxed," pr dicts Giorgio Radaelli, a Lehman Brothe Inc. economist in London. Not so, claims t PP's Montoro. "Spain has high interest rat so we can't have expansive budgets," he sa "That's the old way of thinking."

RECORD STOCK HIGHS. Voters still face mont of turmoil before an election. On July 28 state investigator found enough evidence o González role in the Basque killings to a Spain's supreme court to consider formal cha es against him. The Prime Minister, meanwh has just assumed the six-month rotating pre dency of the European Union. He may try deflect domestic flak through EU initiatives. T Socialists may also highlight the admitted ro of Aznar's party in the Franco dictatorsh even though Aznar himself was only 22 when Franco died

Neither Spain's turbulent politics nor a once soaring ec omy that's limping along at a 2.6% growth rate have fa portfolio investors. Stock prices have hit record highs rece ly—probably because a switch to conservative government taken for granted, says the stock exchange's García. After t scandal and impotence that have marked González' rule in cent years, a new regime seems a happy prospect indeed.

By Stewart Toy in Paris and Al Goodman in Mad

GLOBAL WRAPUP

SAUDI SHAKEUP

▶ The choice of a veteran oil industry xecutive as Saudi Arabia's new oil could signal more pragmatic m the world's No. 1 ex- de. The new minister is currently president of the national oil company that was once dominated by Mobil, Exxon, Texaco and Chevron. Naimi is a well-regarded career oil man who is expected to be more independent of OPEC and more aggressive, compa cies than his predecessor, Hisham Nazer, a technocrat who has been oil minister since 1987.

Nazer oversaw the increase in Saudi oil pumping capacity to 10 million barrels a day. The Saudis are not likely to increase their production much above the present roughly 8 million. But Saudi Aramco, which recently cut refining deals in Greece and China, will probably gear up for further international expansion under Naimi. In another important change, Muhammad Ali Aba al-Khail, the long-serving Finance Minister, is also stepping down. He will be replaced by Suleiman bin Abdel Aziz al Sulaim, who has been Commerce Minister.

GERMAN GREEN TALKS TOUGHER

▶ German Greens leader Joschka Fi cher is pushing the party to shed its far-out image. In a recent paper, he breaks with the Greens' past pacifism by urging military intervention to protect U. N. safe areas in Bosni He is trying to position the Greens as a viable coalition partner for the Social Democrats in the 1998 nation elections.

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Companies are stepping up programs to retain minorities

WIN-WIN: *Polaroid honed project manager Bush's talents*

Patricia Bush is the kind of employee every company wants. She's hardworking, creative, and gets things done. An African American project manager at Polaroid Corp., Bush joined the Cambridge (Mass.) employer after college, in 1979, and has moved steadily up through production, marketing, and sales. It doesn't hurt that Polaroid has supported Bush—and other minority and women professionals—by giving her jobs with high visibility and clout. What's more, the top brass gives free rein to an advocacy group of senior black managers that Bush helps run. "When I talk to my friends at other companies, it's like night and day," Bush says.

While the swirling debate over affirmative action focuses on getting minorities and women in the door, companies such as Polaroid are taking a longer view. Eager to exploit their large, diverse workforces, they're more concerned with developing the minorities and women they already employ. "The whole affirmative-action debate misses the issue of utilization—getting the most out of the people you already have," says Taylor Cox, an associate professor at the University of Michigan School of Business Administration who studies minorities in corporations. "That's the critical issue for companies today." Whether the commitment to diversity will change if Washington eases affirmative action laws is still unclear.

In the meantime, to retain female and minority employees, some companies are beginning to take their careers more seriously (table). But unlike past efforts, corporations are now realizing it's not enough just to start a mentoring program or put a woman on the board. Rather, they have to undertake a host of programs—and not just inside the company. Texaco and Dow Chemical are building ties with minorities as early as high school. Polaroid and Ameritech are investing in employee organizations that monitor corporate policies and work with community groups. "Minorities don't want anything different than what other employees want," says Edward Gadsden, an African American who is Texaco's diversity manager. "They want to be recognized, rewarded, and supported."

The attrition of minorities and women from the ranks of Corporate America is nothing new. What is surprising is that after years of trying to improve, companies are still so often seen as inhospitable places. Some recent studies underscore this perception. Women and minorities hold just 5% of senior-level jobs in companies, says the Glass Ceiling Commission, a Labor Dept. body. White males still dominate management and administrative jobs (chart). And Cox's studies show that minorities and women quit companies up to 2½ times as often as white males, costing employers millions of dollars in lost training and productivity. "The combination of women and people of color dropping out is really discouraging," says Lawrence Perlman, CEO of Ceridian Corp. in Minneapolis, an electronics and information-services company. "It just isn't good business."

DISCRIMINATION PREVAILS. Some of the most common problems are outlined in a 1994 survey of 373 African American and Hispanic professionals in nine corporations. The study, conducted by New York human resource management consultants Brecker & Merryman Inc. found that many respondents perceive white managers as more willing to take white workers under their wing and as having lower expectations of the aspirations of minority employees. It also noted that minorities who obtain top jobs often are in "soft positions" such as human resources. "We're not seeing movement into the mainstream," says Richard J. Bela, president of the Hispanic Association on Corporate Responsibility, an advocacy group.

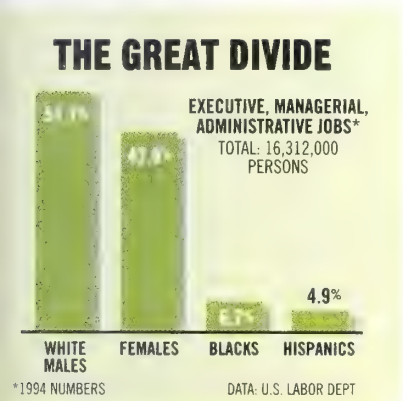
Despite all the talk about reverse discrimination, black managers say bias still permeates the workplace. In a study by the National Black MBA Assn. conducted early this year, 51% of the 200 managers surveyed said that discrimination was one of several factors hurting their chances for success, says William J. Qualls, a marketing professor at Massachusetts Institute of Technology's Sloan School of Management, who head

- **FOCUS** on bringing in the best talent, not on meeting numerical goals
- **DEVELOP** career plans for employees as part of performance reviews
- **SET UP** mentoring programs among employees of same and different races
- **PROMOTE** minorities to decision-making positions, not just staff jobs
- **HOLD** managers accountable for meeting diversity goals
- **DIVERSIFY** the board of directors

DATA: BUSINESS WEEK

d the study. Yet 70% of the managers aid affirmative-action programs may ave worked against them, partly by in ffect putting quotas on certain jobs.

For former managers such as Michael lement, an African American, one prob-m with Corporate America was isola-on. Now a PhD candidate at Stanford niversity, Clement worked at Citibank om 1988 to 1991 and in the early 1980s efore getting an MBA. In the corporate nance department, he says, he was one f only two black professionals. The two lt so exposed that they were uncom-rtable going out to lunch together. ays Clement: "We weren't sure what eople would think."



Ceridian is one example of how far ompanies are going to reach out to uch employees. Throughout the com-any, high-potential minorities and wom-n are selected for succession planning—nd all employees get help with career evelopment. Ceridian provides intern-ips to inner-city kids and recruits at lack colleges. Every year, managers ust set diversity goals, and 10% of eir bonuses reflect whether they were et. Of Ceridian's 7,500 employees, 50% re women and 19% are minorities. At e managerial and executive levels, 6% are women and 10% are minorities.

Few companies are so rigorous. But ore are gaining the confidence of orkers by supporting employee-affinity roups as Polaroid did. At Ameritech, r example, the Black Advocacy Panel eviews corporate policy on such things s downsizing and affirmative action nd works to improve diversity at top vels. In June, the panel held a summit ith 400 people, including Chairman ichard C. Notebaert, where he out-ned the company's diversity strategies. I feel like there's someone standing up r me," says panel member Constance ohnson, an employee-communications anager. "It makes me feel better about meritech." If they're going to hold on minorities and women, that's a mes-age more companies will have to hear.

By Michele Galen in New York, with nn Therese Palmer in Chicago

STRATEGIES

CASE DIGS OUT FROM WAY UNDER

By listening to customers, the company is reaping big profits for the first time in years

When engineers at Case Corp. asked longtime customer Larry Willingham to fly to Burlington, Iowa, to assess the company's new loader backhoe in mid-1992, the Tucson (Ariz.) contractor was more than a little skeptical. Just another factory tour, he thought.

But from the moment Willingham arrived, Case put him to work. For three grueling 11-hour days, Willingham loaded trucks, dug ditches, and leveled dirt as he rated Case's backhoe against rival machines from Caterpillar Inc. and Deere & Co. Evenings, Willingham huddled over pizza as Case engineers peppered him with questions.

Willingham liked what he saw, but he still wasn't sold. At nearly 16,000 pounds, the prototype weighed far more than he needed. If he bought one, he'd need a bigger truck, too. If this was Case's best shot, he'd stick with the lighter Deere model. But a year later, when the new model was unveiled, Case surprised Willingham. It had all of the features he had liked—and weighed 12,900 pounds. "I was really happy with the new model," Willingham says. "I definitely felt they listened to me."

NO TAKERS. Listening to the customer? It's all part of an extensive makeover that has Case, the long-troubled unit of Houston-based conglomerate Tenneco Inc., plowing up big profits for the first time in years. After a decade in which Case made a virtual art of ignoring the market, the maker of construction and farm equipment has spent four years trimming costs and capacity. But most important, Case, based in Racine, Wis., has made building what the customer wants top priority. "We need to be asking what the farmer and contractor really need," says Jean-Pierre Rosso, a 55-year-old Frenchman who became chief executive in April, 1994.

Case's makeover began back in 1991, when Tenneco's board, fed up with years of poor performance at the parent company, named turnaround expert Michael H. Walsh as CEO. Walsh brought in Dana G. Mead as his No. 2, and sent the longtime International Paper Co. executive to clean up Tenneco's biggest woe, Case.

Mead knew drastic change was needed: Despite repeated attempts to restructure, Case had lost money through most of the preceding decade. For 1991 and 1992 alone, operating losses hit nearly $900 million. "The [earlier efforts] weren't dramatic enough; they lacked resolution," says Mead today. H blames Tenneco's old guard, which r fused to put up the money needed to r make Case. Tenneco also insisted on m cromanaging the changes from Housto Frustrated Case managers, figuring th would have little input anyway, nev moved aggressively to implement th fixes.

At first, things looked so bad th even Mead wasn't sure he could su

A key to Case's makeover has been to invite clients to its testing site in Iowa, get feedback, and then include the ideas in redesigns

CEO ROSSO MAY SEE CASE'S NET INCOME LEAP 78%

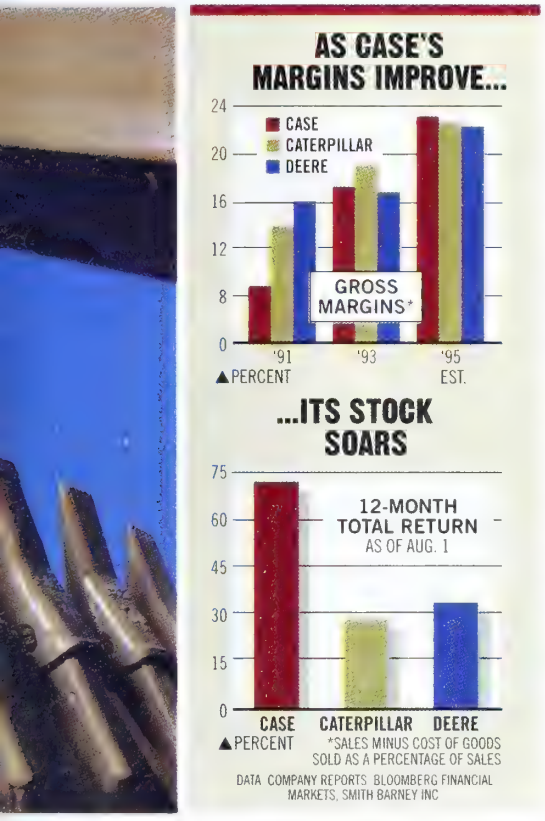
ed. He offered Case to anyone who ould take it off his hands for a dollar—ut he couldn't find any takers. But now ead, who became Tenneco's CEO last ear after Walsh died of cancer, is glad e didn't: After tipping into the black in 993, Case saw net income more than iple, to $165 million last year, on a 4% sales hike, to $4.3 billion. This year ould be even better. On revenues exected to rise a additional 11%, Smith arney Inc. analyst Tobias M. Levkoch predicts Case's net income could ap 78%, to $294 million.

Of course, strong demand helps—rials also are turning in record years. ut on one measure, at least, the perenial industry laggard is gaining ground. ince last June, Tenneco has sold 56% of s Case stake to the public—and over e past year, Case shares have leapt 3%, vs. roughly 30% gains for rivals. elling the Case stake has brought Tenco $750 million. In late July, Mead nounced plans to sell up to 14 milon more Case shares. That would cut enneco's stake to 24%, earning it ughly an additional $500 million.

It's all a long way from the 1980s, hen Case was one of the most misanaged companies in America. For ears, it poured products out to its comany-owned stores to keep factories runing. That forced Case to repeatedly ash prices to pump up sales. Case also ad too much capacity, and it kept makg unpopular lines, such as low-horseower tractors. And it was inefficient, building too many components in-house.

It took the 1991 recession to teach Case its folly. When demand plummeted, dealers were caught with 11 months of inventory—four months above the industry average—and no customers. Facing financial disaster, Tenneco finally shored up Case's balance sheet with $1.4 billion and sent in Mead.

Mead vowed not to repeat Tenneco's earlier errors. He quickly brought in a new management team—and insisted that they write the turnaround plan that would make Case profitable. Then he linked bonuses to meeting restructuring targets and insured that Case's managers had the freedom to act. "I ran cover over Case," says Mead, who as chairman spent two days each week overseeing the turnaround. "I kept Tenneco bureaucrats out of their hair." Just as important, Mead told Case managers up front that Tenneco planned to spin off or sell the company once the restructuring began to bear fruit. "That created a sense of commitment," he says. "They knew they were likely to be an independent company."



Mead and his new team immediately tore into the bloated cost structure. Over the next two years, Case took restructuring charges of $1.4 billion. By 1997, Case will have closed 5 of 20 plants and shifted much production outside. Mead also began trimming Case's offerings, killing money-losing lines. Along the way, he slashed the payroll nearly 35%, to 15,900, started to spin off most of Case's 250 stores, and sold more than $2 billion in excess inventory.

These moves already are paying off. General and administrative expenses have fallen to 12.9% of sales this year, down from 23.3% in 1991. Gross margins have shot from 8.9% in 1991 to 23% last year—topping Cat and Deere. Says one rival: "The Case comeback looks like it may be real."

Still, much work remains. Case is only now embarking on restructuring its European operations, which account for 26% of sales. And Rosso says Case has so far only realized roughly 35% of expected cost savings. That—together with Case's interest burden—means net margins still lag industry leaders.

But with the worst over, Rosso, once a top executive at Honeywell Inc., knows cost-cutting alone won't sell more tractors. To fuel growth, Rosso must spread the lessons learned during the customer-driven redesign of the loader backhoe. Starting in 1992, Case sent teams of engineers and marketing managers to talk to 150 key customers and users of rival machines. They quickly got an earful. For example, engineers had planned to eliminate the backhoe's unique engine hood—which flips up like a car hood, rather than sliding like a side panel, as do rivals'—since it was expensive to build. But the ability to open the hood and see the entire engine was a key selling point. Says product designer Ronald C. Headrick: "We wouldn't have found that out if we didn't ask."

Case designers built a prototype machine and asked Willingham and hundreds of others to test it. Then, final prototypes were shipped to customers for field tests, as Case began overhauling the Burlington plant where the backhoes are built. To cut production costs 13% and improve product quality, Case gutted the 1 million square-foot factory. The company spent $10 million on a new painting system to give the machines an auto-like shimmer and improve rust resistance. Case also borrowed a page from the car industry: To cut the time and costs of design—and to trim inventories—it will build its new family of backhoes around a common platform. Now, 75% of parts will be shared, up from 30%.

WARY INVESTORS. The changes have helped: When the new backhoe was launched early this year, the first six months of production sold out, and the model remains in short supply. But Case isn't out of the woods yet. Caterpillar is keeping up the price pressure, dealers say. So far, Case and its newly independent distributors are holding the line. "The days of using price to gain market share are over for Case," says Rosso. Still, even he admits that investors are wary. "The ultimate proof will be weathering a downturn," he says. Rosso argues Case is prepared: Its break-even point will drop to $3 billion by 1997, down 33%, from $4.5 billion in 1991.

Count on Tenneco to prevent backsliding. Although Mead eventually wants to sell off Tenneco's remaining stake, he plans to keep 24% for now. Creditor agreements had prohibited Tenneco from going below 30% until Case bonds no longer are rated junk—and until Case pays off more than half of a $1 billion loan that Tenneco helped arrange in 1994. But with Case's improvement, that looks imminent. Late in July, a new Case debt offering was rated investment grade, and Case will use the proceeds to cut the debt to $425 million. Then Tenneco will be free to sell out—and Rosso will find out if Case can continue to plow ahead on its own.

By Kevin Kelly in Racine, Wis.

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BANKS

CHASE IS UNDER SIEGE AGAIN

Restive shareholders and rumors are buffeting the bank

When Thomas G. Labrecque took the reins at Chase Manhattan Corp. in October, 1990, the bank was in turmoil. Losses on commercial real estate were bludgeoning its loan portfolio and a looming recession was putting pressure on its credit-card business. Worse, there were chronic rumors that the once proud bank built by the Rockefellers wouldn't survive on its own.

Fast forward to the present, and it's déjà vu. Once again, Chase is under siege. Sure, the bank is healthier, and earnings are up, but profitability remains lackluster. Chase's return on assets for the first half of 1995 was a slim 0.77%. And nagging takeover rumors have resurfaced. Almost every day, there is yet another report of an impending merger with Chemical Banking Corp. Fanning the speculation is the unsettled climate created by activist investor Michael F. Price, who disclosed on Apr. 5 that he had acquired a 6.1% stake, making him Chase's largest shareholder.

CLIMBING. Price is fresh from successfully agitating for the sale of Michigan National Corp. to National Australia Bank Ltd., announced in February. Since Price's arrival, Chase's stock has climbed 41%, to $53.63, on the expectation that he would force major changes at Chase, including a possible sale.

For now, Labrecque would appear to be betting that cost-cutting will placate Price. He has retained a consultant with a take-no-prisoners approach to expenses and pledged to reduce annual costs by at least $400 million. Through a spokesman, Labrecque declined comment for this story. But analysts and other shareholders reckon that bolder moves, such as the sale of one or more key assets, may be inevitable. Chase's credit-card business alone could fetch as much as $3 billion. Cost-cutting is "just the beginning," says Raymond Garea, a vice-president at Price's Mutual Series Fund.

An even bigger question is whether Labrecque can persuade shareholders that Chase should survive as an independent institution if a takeover offer comes along. The CEO has gotten generally positive reviews for returning the bank to profitability and moving to break down Chase's Balkanized culture. He has also developed bold plans for cross-border finance, credit cards, and everything in between. But until Price surfaced, Chase's stock was only a mediocre performer. If a possible merger partner emerged, investors might not want to stick with management.

Chase, in short, is in a race against time. An important deadline is next April, the time for Chase's annual meeting, when Price could propose a slate of dissident directors. But activist shareholders could force a move even earlier.

Price's interest in the bank was based on a belief that, as he said in a Securi-

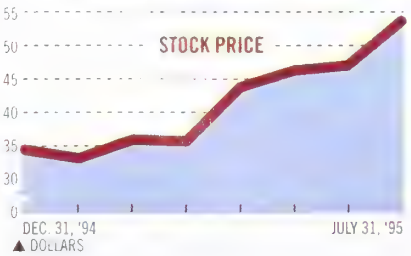
ties & Exchange Commission filing, th "value of all the businesses operated b [Chase] far exceeds the current marke price of [its] stock." Price added tha Chase "should seriously consider tal ing steps to realize the inherent value in its businesses . . . to maximize shar holder value."

Price has been meeting regularl with Labrecque and other Chase execu tives—a practice the bank follows wit all its major shareholders, a Chas spokesman says. He is agitating fo Chase to do more than just cut cost Garea describes cost-cutting as merel "a first step." Other institutional inve

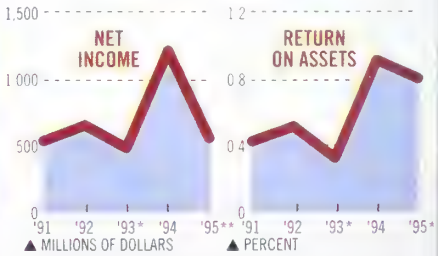
CHASE HAS VALUABLE ASSETS...

	1994
TRUST AND CUSTODY ASSETS	$1.58 TRILLION
MORTGAGES:	$17.4 BILLION
	$66.0 BILLION
CREDIT-CARD RECEIVABLES	$12.0 BILLION
MUTUAL-FUND ASSETS	$7.4 BILLION

...TAKEOVER TALK IS BOOSTING ITS STOCK...



...BUT PROFITABILITY IS NOTHING SPECIAL



DATA: CHASE MANHATTAN CORP.; BLOOMBERG BUSINESS NEWS; KEEFE, BRUYETTE & WOODS INC

*BEFORE GAIN FROM ACCOUNTING CHANGE **FIRST SIX MONTHS

Labrecque could placate shareholders by cutting annual expenses by $400 million

rs say Price has presented Chase with list of the types of steps he would ke to see, including the sale of such rofitable businesses as credit cards and ortgage finance. Garea says they have ot presented an explicit list.

One reason Price is so formidable is iat he has something of a following af- r his success with Michigan National. Mike Price is a bulldog, and he has ot a ton of money," says one institu- onal shareholder. Garea says Price has lked to other big investors in Chase bout their views of the bank, and "by nd large, I think people are suppor- ve" of Price.

ETREAT. The disclosure of Price's stake nited a flurry of takeover speculation. n mid-April, NationsBank Corp. ex- ressed interest in Chase, although it acked off after Chase said it wasn't terested. A market source says Chase so talked to a number of foreign banks bout a combination.

In July, Ronald Mandle, an analyst Sanford C. Bernstein & Co., pub- shed a report saying that a merger of hase and Chemical Bank could pare ome $1.1 billion from annual expenses. le also predicted it would have unprec- dented leadership in syndicated lend- ing, mortgage banking, and credit cards.

Mandle said he had no knowledge of any takeover discussions, but rumors of Chase-Chemical talks are rife. One rumor had the two banks' CEOs meeting for dinner at a restaurant in New Jersey; another had them lunching at the Waldorf-Astoria hotel; and another predicted a press conference on July 28 to announce a deal and Labrecque's resignation. Both banks declined to comment on rumors as a matter of policy.

So far, Chase has responded to the pressure from Price and the market mainly by vowing to cut costs. After promising to eliminate some $400 million in expenses, Chase retained Chandrika Tandon of Tandon Capital Associates, to help slash spending. Tandon has followed her usual custom of enlisting bank employees full-time to help identify cost reductions. The 100 full-time and 400 part-time Tandonistas, as bank insiders call them, began their work on July 5, and implementation of their ideas is slated for January, 1996.

Arjun K. Mathrani, Chase's chief financial officer, says the bank has not changed its strategy in the wake of Price's investment but is simply moving ahead in disciplined fashion on its own longstanding agenda. Hiring Tandon, he says, was just part of the long-term plan to improve productivity. "We've been getting more focused and efficient," he says, "but the theme has been consistent."

Consistency may not be enough, though. The so-so performance of Chase's stock has been frustrating investors for years. It is only now, they say, with Price in the picture, that management is taking the kinds of steps that have been necessary for some time. Chase, says one institutional investor, is "much more proactive in trying to dislodge shareholder value than they were pre-Price."

Chase has other serious problems, notably the loss of some of its most talented executives. Since April, Chase has lost its risk-management chief, several top traders, the president of its mortgage bank, and more. Several of the departing executives were responsible for huge portions of Chase's revenues over the past several years.

Some institutional investors have been predicting that a dramatic move of some sort is inevitable. "It's going to be real difficult for them, if they can't keep the stock up, to say no to a takeover offer," warns one. A consultant who has worked with the bank thinks a sale of Chase's retail-banking businesses could work well, leaving them with a good-size corporate-banking and securities-processing franchise.

NEW BREED? Nowadays, it's sounding as if the dramatic move might be a sale of the entire bank. Trading in Chase's shares and options was unusually heavy over the last two weeks in July, suggesting significant turnover in the shareholder base. David S. Berry, director of research at Keefe, Bruyette & Woods Inc., says that while he does not believe a Chase merger or takeover is in the offing, merger talk "attracts a different kind of shareholder," one less inclined to stick with management if a premium bid surfaces.

Despite all the speculation, Chase insiders say the bank is determined to remain independent. The bank may get at least a short reprieve. Chemical Bank, the potential buyer everyone is currently focused on, announced a $1.2 billion stock buyback program in July—not a move a bank usually undertakes in advance of a big merger or acquisition. In the meantime, Chase's Mathrani insists that the bank can make the necessary improvements on its own. "We will deliver," he says. "It's the only way to beat the skeptics." In its battle with the skeptics, however, Chase Manhattan seems seriously outnumbered.

By Kelley Holland, with John Meehan, in New York

CARDS

THE SMART MONEY IS ON SMART CARDS

A hit in Europe and Asia, they're finally catching on in the U.S.

For U S West Inc., the Telecard is fast becoming the most popular Seattle export since the coffee bar. It looks like a credit card, but embedded in it is a microchip that can be "loaded" with digital cash for use in pay phones throughout Seattle. By next summer, 16,000 specially equipped pay phones in five cities will accept the cards. Now the company is talking with retailers. It's a win-win situation: Consumers get added convenience; U S West gets the promise of higher revenues.

In fact, this snazzy innovation is an idea that's two decades old—the "smart card," so called because of the microchip that puts information in the card. Patented in the 1970s, by the 1980s they were heralded as the next breakthrough in electronic payment technology—not just as high-tech cash cards but to enhance credit cards to prevent fraud and store information, such as medical records. Despite studies showing that consumers would leap at the chance to carry cash on plastic, and despite successful launches such as U S West's, they have yet to spread nationwide.

But that's changing—and fast. Thanks to a handful of innovators, the smart-card movement is beginning to pick up steam (table). Sure, there are obstacles, but they are likely to be overcome. Part of the reason for the cards' bright future is global competition. Smart cards have taken off all over Europe and Asia: Most of the nearly 33 million of them in circulation by yearend 1994 were issued there, according to consultant Spencer Nilson. The French have shopped and telephoned with smart cards for nearly a decade, and they're popular even in Russia. "I just got back from Moscow, where there are more chip cards issued than magnetic-stripe cards," says Thomas H. Sak, an executive at credit-card equipment maker Verifone Inc. MasterCard and Visa are both launching smart cards internationally.

BIG SPENDERS. Another factor encouraging the spread of these cards: They're a handy way of processing penny-ante transactions. Last year, some $1.8 trillion was spent worldwide on purchases of under $10, some $560 billion of that in the U. S. Such transactions represent a huge potential market for cash cards. Both merchants and consumers stand to benefit, but no one has been willing to ante up for the expensive equipment needed to process the cards until they become more widely used. Smart cards, while profitable, would not generate as much income as credit cards.

But there's a powerful antidote to the bankers' chariness—the merchant. For them, the allure is clear: Typically, merchants lose 5% to 7% of total cash receipts to the costs of handling money. They could also speed customers through checkout lines. A cash-card transaction takes only a second or two, far faster than making change. "Speed of service is critical to our business," says Neil M Naroff, director of brand marketing at hamburger chain Carl's Jr. Naroff expects the fast-food industry to embrace cash cards. Studies have shown that people paying with plastic tend to spend more per purchase than cash customers.

For issuers—whether banks or merchants—there are incentives as well. Smart-card issuers can keep the "float" that allows a card issuer to invest customer money while it sits idle on the chip cards. They would also hang on to

THE CASHLESS PIONEERS

SOUTHEASTERN BANKS

Southeastern Visa issuers—Nationsbank, First Union, and Wachovia. Big splash at Olympic Games; 5,000 terminals scattered at merchants throughout Atlanta will accept Visa Cash.

U S WEST

Cash cards for 16,000 pay phones in five Western cities; seeking retailers, other partners.

DELAWARE BANKS

Wilmington Trust Corp. and 27 other banks will issue ATM cards equipped with chips to carry cash; 200 merchants in suburban Wilmington.

CANADIAN BANKS

Mondex, Royal Bank of Canada, and Canadian Imperial Bank of Commerce are taking the lead. Smart cards will allow individuals to transfer digital cash among themselves. Cities not yet selected.

DATA: BUSINESS WEEK

Everyone thinks Unisys is just a computer company.

Everyone's wrong.

the "slippage"—money left on cards that never gets used; in the traveler's check industry, that amounts to a huge 7%.

Leading the way in breaking the banking logjam are a diverse bunch of companies. AT&T, for one, is working with Delta Air Lines Inc. and selected customers of the East Coast shuttle loading tickets and frequent-flyer miles onto chip cards. Several sources told BUSINESS WEEK that McDonald's Corp. and Blockbuster Videos Inc. are discussing a joint smart card that would be accepted by both retailers while bypassing banks and credit-card associations. These would be capable of carrying electronic coupons and frequent-shopper bonus points in addition to cash. Neither company would comment, but industry analysts say that retailer groups are bound to start issuing cards before long.

OLYMPIC GOLD. Financial services companies are interested, too. Electronic Payment Systems, owner of the East Coast's MAC automatic-teller network, is teaming up with several Delaware banks for a 1996 pilot that would put smart-card chips in ATM cards. Mondex, a London startup owned by National Westminster Bank PLC and Midland Bank PLC, is testing a system in England that would allow people to pass digital cash from one card to another.

Visa U.S.A. Inc. has developed a card it plans to launch at the 1996 Olympics in Atlanta along with First Union, NationsBank, and Wachovia. Visitors to the Olympics will be able to stick the cash card into a slot at one of 5,000 terminals located throughout Atlanta—from fast-food joints to gas stations and souvenir stands—and cash will be vacuumed instantly off the chip into the merchant's register. "We'll use this as a springboard to cities like Jacksonville and Miami," says Fred Winkler, First Union Corp.'s smart-card boss.

Once the cards begin to catch on, the high cost of processing equipment can be borne by merchants: Smart-card readers can cost from $50 for simple models to $800 for gizmos tied into inventory systems—and the cards themselves cost up to $10 apiece. Until smart cards become popular, the cost of equipment will be a sticking point between the issuers and merchants.

Southeastern banks are pretty much alone in embracing smart-card innovation. "Banks run the risk of missing a great opportunity here," says Stephen White, a consultant with Dove Associates Inc., a credit-card consulting firm. Opportunity is knocking—but the vast majority of banks are not answering.

By Russell Mitchell in San Francisco

INVESTMENTS

FOR ONCE, IT COULD PAY TO BUY RETAIL

The best deals in the market may be department-store stocks

At first blush, searching for value in today's stock market seems akin to shopping for bargains on Rodeo Drive. Sky-high tech stocks have fueled a 23% rise in the market so far this year. But some money managers say there's still one sector offering good buys with little risk: retail. "This is the first time in a long time I've been positive on the group," says NatWest Securities Corp. analyst Robert F. Buchanan. "We're seeing a window of opportunity."

Retailers have suffered as tough competition, overcapacity, and shrinking demand have cut profits. For 2½ years, Standard & Poor's broad retail stores composite index has trailed the S&P 500-stock index. Lately, though, the broad retail index has come alive. Behind the move: a pickup in sales and a belief that the stocks have nowhere to go but up.

DARLINGS. Despite the U.S. economy's second-quarter slowdown, consumer spending is steady and, according to certain analysts, poised for a rise. The winners, according to Walter Loeb of retail consulting firm Loeb Associates, will be department-store chains such as Federated Department Stores Inc. "It has strong management and very strong operating potential—as they consolidate the operations [of Federated and Macy's]," he says. At 28¾, the stock's price-earnings ratio is a mere 11.7 based on his forecast of 1996 earnings. Loeb thinks the stock could hit 33 soon. He also likes Sears Roebuck, Walgreen, and Home Depot.

Beleaguered Kmart Corp. is another favorite. "There's not a big downside, and there is a lightning rod of change available" in the new chairman, Floy Hall, says Michael D. Jamison, a mana ing director at Brandywine Asset Ma agement. At 15¾, the stock trades 1.2 times book value, fitting into Jam son's value criteria. He also likes Me ville Corp., a $35 stock with a p-e 15. Jamison thinks the retailer will able to refocus mall operations.

Onetime market darling Home Dep

SOME SEE KMART AS UNDERPRICED

Inc. is attracting atte tion again. The sto of this home-improv ment chain quintupl between 1990 and 19 but has barely budg since. "What we li most is the grow from its Expo Desi Stores, its home-dec rating store," sa Prudential Securiti Inc. analyst Way Hood. Four stores w open by yearend, a Hood says there is p tential for 100 sto over the next fi years. The stock, 44, has a p-e of based on forecast 1996 earnings. Tha not cheap, but Ho predicts 30% earnin growth and thinks improved housing m ket will boost the stock. Loeb, anotl fan, thinks the stock could rise to 53

Even some pricey retail stocks on analysts' lists. Buchanan calls bo seller Barnes & Noble Inc. an "outri buy," even with a p-e of 23 on 19 earnings. That's O.K., he says, since estimates earnings growth of 30% the next several years.

Retail stocks will never have same glamour as the high-tech high ers. But after underperforming for long, they don't share tech stocks' do side risks.

By Suzanne Woolley in New Yo

A BARGAIN BASEMENT?

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THE INFORMATION MANAGEMENT COMPANY

MUTUAL FUNDS

THE PROSPECTUS TRIES PLAIN SPEAKING

The SEC tests a new format to help investors compare funds

When Arthur Levitt Jr. became chairman of the Securities & Exchange Commission, he sold his individual securities and invested in mutual funds. That's when Levitt had his first encounter with the horror that millions of investors face: the fund prospectus. This long and often abstruse legal document purports to explain how the fund invests and operates. "I had spent most of my life in the investment business," he says, "and I had difficulty understanding some of it."

With prodding from Levitt and the SEC, eight mutual-fund companies on July 31 unveiled a "profile prospectus" that is greatly simplified and much slimmed-down. Each company produced this low-fat prospectus for a stock, a bond, and a money-market mutual fund already in its stable of offerings. Instead of pages and pages of eye-numbing gray, the new prospectus can fit on both sides of one 8½-inch-by-11-inch piece of paper—with room to spare.

INTIMIDATING. No impenetrable legalese here. The language is often simple, if not downright blunt. Under the section "Risks," the profile prospectus for American Funds Group's EuroPacific Growth Fund states plainly: "Stock prices rise and fall." A few lines later, in bold red type, it continues: "You can lose money by investing in the fund; your investment is not guaranteed." No sugarcoating here either.

The profile prospectus is not as comprehensive as the current one and seems to fly in the face of the underlying principle of U.S. securities law—complete disclosure. But it also is obvious that disclosure is ineffective if investors don't understand it or if it's so intimidating they don't read it. According to a survey of 1,000 mutual-fund investors conducted by Response Analysis for MainStay Funds, a majority rated the prospectus unfriendly and hard to understand, and only 28% of them said they used it always or most of the time when purchasing funds.

The Slimmed-down Prospectus

Mutual-fund companies are testing a prospectus that addresses the following 11 points and fits on one piece of paper:

GOAL
What is the fund's objective, such as capital gains or high dividends?

INVESTMENT STRATEGY
What kinds of investments will be used to achieve the goal?

RISKS
It can be market, credit, currency, liquidity, or interest-rate risk.

APPROPRIATENESS
For what kinds of investors is the fund suitable or unsuitable?

FEES AND EXPENSES
What are the sales charges and operating expenses?

PAST PERFORMANCE
Annual historical returns are displayed in a bar chart, and average annual returns are compiled numerically.

INVESTMENT ADVISER
Who manages the fund?

PURCHASES
How do you buy shares? Is there a minimum investment?

REDEMPTIONS
How do you get your money out?

DISTRIBUTIONS
Does the fund make income or capital-gains distributions, and with what frequency?

OTHER SERVICES
Are there fund-switching privileges or automated-transaction or check-writing services?

DATA BUSINESS WEEK

In developing the profile prospectus, regulators and fund executives are betting a more user-friendly document will be used more often. And even if the slim, plain-language prospectus is eventually adopted, the unabridged version will still be made available to those who request it.

For now, the new prospectus is an experiment, and investors in any of the 24 funds that have them will still receive the standard one. Over the next year, the Investment Company Institute plans to conduct what ICI President Matthew P. Fink termed "heavy research" to determine investor response and if the new format meets their needs and concerns. Levitt said that only after extensive research will the commission consider a formal adoption of the new document.

Fund companies don't have to offer the slimmed-down prospectus now. But if they do—and Levitt says he hopes they will—they must follow the same 11-point organization that's in the prototype (table). The plan starts with more substantive points, such as goals, risks, costs, and historical performance and winds up with operational details such as purchases and redemptions.

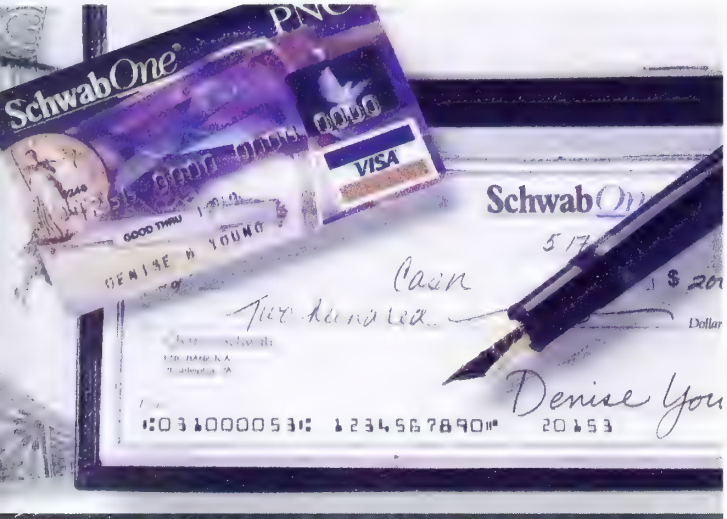
EYE ON PERFORMANCE. A big advantage of the 11-point format is that it makes it easier for an investor to compare funds. For instance, fees and expenses are always the fifth point, historical performance, the sixth. In addition, the standard for showing year-by-year returns is a bar chart. Bars that jump around a lot are a visual cue, as well, for fund volatility.

"This prospectus could save trees and lower costs to investors, and that's positive," says mutual-fund maven A. Michael Lipper of Lipper Analytical Securities Corp. But he wonders whether the new document places too much emphasis on past performance and not enough on the portfolio. Even the full prospectus as a rule describes the portfolio in vague, general terms, and a fund is required to give a complete accounting of its investments only twice a year. Says Lipper: "It's the portfolio that's going to produce your future results."

While the final shape of the profile prospectus won't be known for a year or more, there's little doubt Levitt is determined to get a mutual-fund prospectus even he can understand.

By Jeffrey M. Laderman in New York

Schwab Gives You One Very Smart Way To Handle Your Investments.



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BY GENE G. MARCIAL

HUNGRY FOR A BITE OF WARNER-LAMBERT

After quite a roller-coaster ride this year, Warner-Lambert (WLA) stock is headed steadily uphill again—thanks to renewed takeover talk. Whispers are that a big hedge fund is accumulating shares of this maker of prescription and over-the-counter drugs.

The fund's manager intends to press Warner-Lambert management to take action soon to realize the stock's intrinsic worth, says a strategist at a New York investment bank. The stakeholder is expected to propose either breakup or sale of the company. The scuttlebutt is that Warner-Lambert will try to fend off such moves by selling noncore units, including its confectionery, gum, and mints operations.

MORE VALUABLE IN PIECES?

DATA: BLOOMBERG FINANCIAL MARKETS, ZACKS INVESTMENT RESEARCH

"Warner-Lambert is such an undervalued company with such a valuable franchise that I would be surprised if it isn't bought out by yearend," says an analyst at one New York investment bank that holds a 4.9% stake.

The breakup value of the company's three major divisions, which produced total revenues of $6.4 billion last year, is 140 a share, he estimates—compared with its current stock price of 84.

Bristol-Myers Squibb, American Home Products, and Glaxo are rumored to have expressed interest—in either the whole of Warner-Lambert or parts of it. This analyst believes all three have made informal offers. A Warner-Lambert spokesman said the company was looking to dispose of "nonproductive" assets but wouldn't comment on buyout rumors. Bristol-Myers and American Home Products declined to comment.

Although Warner-Lambert's new-product pipeline shows improvement, investors are finding the stock appealing on its breakup value alone. Here's how one respected analyst figures the values in Warner-Lambert:

Pharmaceuticals, which include Accupril and Dilzem antihypertensives and Dilantin and Neurontin epilepsy treatments, accounted for 32% of sales and 42% of earnings last year. The analyst puts the price of this group at $5.9 billion. Health-care products, including Listerine, Rolaids, and Benadryl cold medication, generated 46% of sales and 42% of profits and are valued at $9.6 billion. Confectionery, gum, and mints—among them Dentyne, Trident, Clorets, and Certs—accounted for 22% of sales and 16% of earnings and are worth $4.5 billion.

Total: $20 billion, or $140 a share, after deducting debt of about $900 million. "There are 20 drugmakers worldwide desperately seeking valuable properties. Warner-Lambert is a standout among [the targets]," says Oppenheimer strategist Mike Metz.

KIDS MAY WARM BURLINGTON UP

In this raging bull market, retailers haven't been standouts. Even discount-chains haven't fared well. But Burlington Coat Factory (BCF), which sells off-price apparel, has revived: Shares climbed from 9 in mid-June to nearly 13. What's stimulating Burlington? Kid stuff—namely, a plan to beef up the company's Totally 4 Kids stores, which some pros expect will spark interest in all Burlington outlets.

Burlington expects to open 60 new Totally 4 Kids stores nationwide over the next couple of years. They'll be full-service shops with inexpensive but high-quality clothes, toys, and furniture for kids under 14. The new wrinkle in the next wave of outlets is mall locations—with child care nearby for parents' convenience while shopping.

The stores will be adjacent to Jumpin' Jaxx, a company that offers entertainment centers for kids. Burlington and Jumpin' Jaxx have signed an agreement for Jaxx to provide facilities at all new stores—for modest hourly fees.

Burlington, which sells a wide range of brand-name apparel, mainly outerwear, has suffered from the general retail slump and from two unusually warm winters. Analysts expect Burlington to earn 55¢ a share this year and 96¢ in 1996, vs. last year's $1.12.

This new concept "should be a big hit for Burlington," says a California money manager. She sees the stock hitting 20 in a year.

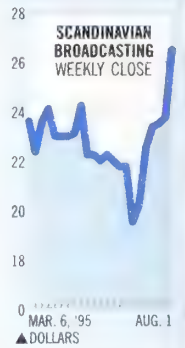
NORDIC RIPPLES FROM DISNEY'S DEAL

Go Scandinavian, if you want an outside play on Walt Disney's surprise $19 billion acquisition of Capital Cities/ABC. Buy Scandinavian Broadcasting Systems, that is, say some pros. Its shares (SVTVF) jumped 3¾, to 27, two days after the July 31 announcement of the deal. The reason: Cap Cities has a 23.5% stake in Scandinavian, which owns and operates six commercial TV stations in Scandinavia and the Benelux nations, plus radio stations in Denmark, Finland, and Sweden. The company also has an application to operate in Britain through a consortium.

The merger is a big plus for Scandinavian, partly "because of Disney's commitment to expand into international markets," says Melissa Cook, an analyst at Prudential Securities. John Whittier of Donaldson, Lufkin & Jenrette Securities, thinks so, too. "With Disney coming into the fold, Scandinavian is in an even better position to develop its operations across Scandinavia and other parts of Europe," he said.

All that makes Scandinavian an attractive property, especially to the likes of Viacom, which has a 7% stake in Scandinavian. Through its Paramount unit, Viacom has a 10-year pact to supply movies to Scandinavian.

MICKEY IS PERKING UP SCANDINAVIAN



DATA: BLOOMBERG FINANCIAL MARKETS

Cook's initial target for Scandinavian is 35 a share. But the stock may overshoot the mark. Viacom may opt to go after Scandinavian to protect its interests. Cap Cities has a standstill agreement not to exceed a 25% stake until November, 1996. Beyond that Cap Cities may go after the slice of the stock it doesn't already own. Or it could be sold to another buyer.

Cook calculates the private market value of Scandinavian at 57 a share.

74B-CA

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COMMENTARY

By Howard Gleckman

GEPHARDT HAS A GREAT PROGRAM—FOR THE '30s

While a reelection-hungry President Clinton scrambles to shift the Democrats toward the right, House Minority Leader Richard A. Gephardt has begun to lay out his own vision for the troubled party. There's just one problem: The Missouri lawmaker has the wrong picture.

Gephardt's manifesto, outlined in July, says government economic policy should be aimed at "the line worker, the farmhand, the office clerk," who earn money through "sweat, toil, and tears" rather than "stock speculation, capital gains, and idle investment." On their behalf, he'd overhaul the tax code by abolishing most deductions, eliminating preferential rates for capital gains, and setting five rates ranging from 10% to 34%. Gephardt's blueprint is vintage Democratic rhetoric. But it misses fundamental changes in the U.S. economy.

"DOWN A DEAD END." Today, the biggest split in American society is not between bosses and workers but between the highly skilled—who are prospering—and the undereducated—who are not. Traditional Democrats enthusiastically support incentives to make education and job training accessible to more people. But these Democrats would abandon the newly skilled once they've harvested the fruits of their learning. Succeed and invest, and old-line Democrats drop you like a hot rock. "We're going down a dead end unless we're seen as the party that believes in upward mobility," says Senator Joseph I. Lieberman (D-Conn.), chairman of the centrist Democratic Leadership Council.

At least Gephardt is paying attention to folks who work for a living. Until recently, Democrats seemed more interested in the unemployed—one reason blue-collar voters have been ditching the party since 1968. But today's workforce has moved far from the factory floor, and many Democrats have yet to notice.

In 1973, operators, fabricators, and laborers—the heart of the old manufacturing shop—accounted for 21.4% of all workers. Today, they are 14.5%. Farm workers, who have been fading from the scene for generations, now make up only 1.7% of the workforce, half their share of two decades ago. By contrast, managerial and professional workers—including everyone from business executives to computer scientists—are now 27.4% of workers, up from 19.7% in 1973.

And those 34 million white-collar workers are among those changing the very face of capitalism. Today, 40 million investors own mutual-fund shares, eight times the number in 1977. Nearly 40 million workers participate in 401(k) and similar investment-centered retirement plans. Seven million are in stock-option plans. And 16.5 million individuals reported capital gains in 1992, three times the number in 1960. More than 40% of those investors were solidly middle class, earning $30,000 to $75,000 a year.

Many of today's workers are tied to their companies in other ways that differ from the old Industrial Age. Capital buys brainpower, not just equipment. Last June, when IBM plunked down $3.5 billion for Lotus Development Corp., it wasn't just buying computers and a handful of software products. Rather, it was purchasing the skill and vision of Lotus Notes architect Ray Ozzie and scores of other creative minds. Many in the new workforce, whose own compensation is often linked to the success of their companies, understand that their future is tied to the willingness of investors to take a chance on a good idea—and to earn a fair rate of aftertax return for that risk.

Most ominously for Democrats, better-educated workers vote. In 1994, more than 31% of all voters earned more than $50,000. Only 17% earned less than $25,000. The party shouldn't ignore blue-collar workers. But by focusing only on the stagnant pools of the labor markets, the Gephardtites are ceding to the GOP vast numbers of workers in growing sectors of the economy: computer programmers, health workers, and entrepreneurs.

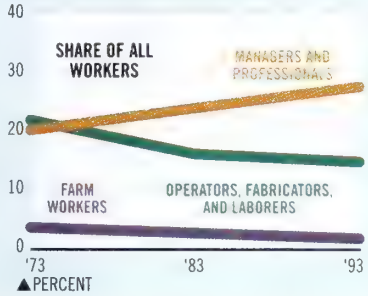
Clinton appears to recognize this sea change, but can't seem to develop a policy that reflects it. Yet traditional Democrats are still transfixed by the vision in the rearview mirror. As long as they remain oblivious to the mind-boggling changes of the '90s, Gephardt & Co. may be headed for the same fate as those farmhands who so dominate their view of today's economy.

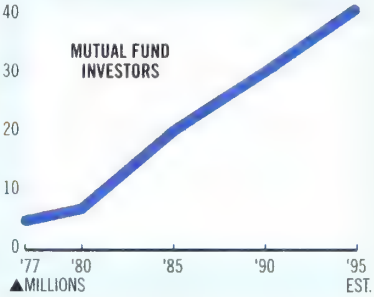
Senior Correspondent Gleckman reports on economic policy from Washington.

BEHIND THE TIMES?

Minority Leader Dick Gephardt's plan misses huge changes in the U.S. economy

DATA: BUREAU OF LABOR STATISTICS, INVESTMENT COMPANY INSTITUTE





SCIENCE

PUTTING SCIENCE ON TRIAL

The high court's stricter rules make lawsuits harder to win

All Joyce Daubert and Anita DeYoung wanted was a little justice. The two California mothers believed their children's birth defects—one was born without a hand and another with an abnormally short arm—were caused by Bendectin, an antinausea medicine they had taken during pregnancy. Like thousands of other women who took Bendectin between 1957 and 1982, they wanted Merrell Dow Pharmaceuticals Inc. (now Marion Merrell Dow Inc.) to pay for putting an unsafe product on the market.

But their hopes—and allegations—collapsed after a decade-old campaign. A federal appellate court threw their case out this January, ruling that it could not be supported by any valid science. The court blasted plaintiffs' experts for offering skimpy evidence that was dismissed by the larger scientific community. "The only review the plaintiffs' experts have received has been by judges and juries," wrote the court. "It's as if there were a tacit understanding within the scientific community that what's going on here is not science at all, but litigation."

TOUGHER CLIMATE. The Bendectin case, and the court's scathing analysis of it, illustrates the tough new scrutiny science is under in the courtroom. Whether it involves Bendectin, or links between silicone gel breast implants and disease, or computer keyboards and repetitive-stress injuries, judges are questioning the soundness of science in a growing number of cases (table). They are also giving the boot to cases before trial when they find expert testimony inadequate. "It's difficult to separate the wheat from the chaff," says San Francisco product-liability defense lawyer Kevin Dunne. "But judges are starting to exercise more control over science."

Plaintiffs and defendants are cheering the trend because it may keep the most dubious claims from reaching juries. For instance, in a case that was later overturned, a psychic was awarded $1 million after claiming she lost her special abilities following a CAT scan. "What had been passing as science in the courtroom was laughable," says Chris Parks, a plaintiff lawyer in Port Arthur, Tex.

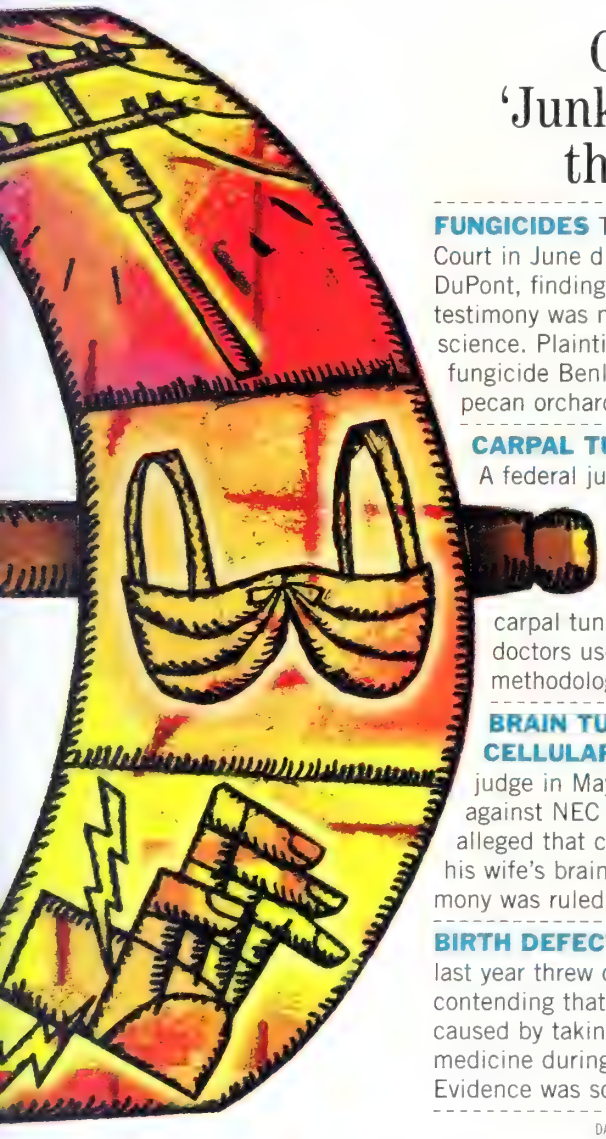
The tougher climate will most affect the plethora of legitimate cases making their way to trial. In the litigation over the effects of silicone breast implants, the Norplant contraceptive device, and tobacco, for example, both sides will feel added pressure to deliver the goods on their claims. "Before you transfer money from one party to another, you best be sure there's scientific evidence to back it up," says product-liability expert Victor E. Schwartz.

That's not as easy as it sounds, since science can take years to develop and can be manipulated. And simply because one judge thinks some science falls short doesn't mean the lawsuit in question is unjustified and wouldn't fare better in another court. In the end, the new rules are likely to tilt in favor of deep-pocketed corporate defendants, who have the money to back studies and fund drawn-out disputes over evidence.

The stricter treatment of so-called junk science began with the Bendectin case, which led to a landmark Supreme Court ruling in 1993. That's when the high court created a new standard for evaluating expert testimony. Among the criteria judges were told to consider: whether a scientific theory has been properly tested; whether it has been subjected to peer review; and whether it has been published in a reputable scientific journal. Though the ruling a plies only to federal cases, sever states, including Texas and Louisian have jumped on board. "It was not i tended to mean that all but Newtor three laws of motion get kept out court," says Harvard University la professor Charles Fried, who argue

e case. "What it has meant is that ally speculative, unsubstantiated, nge science has had a hard time get-g into court."

Until the ruling, judges had been re-tant to exclude expert testimony m trial, preferring instead to allow a y to weigh its value. For 70 years, perts had testified as long as their eories or research techniques were nerally accepted within the relevant entific community. But in the first ar since the high court set the new es, evidence was barred in nearly o dozen cases alleging everything m ibuprofen causing kidney disease to tin-A leading to birth defects, accord-



to a study done by George Mason iversity School of Law professor vid E. Bernstein.

Already, corporate defendants have t back potentially devastating claims inst them. Cellular-phone companies l utilities have flattened cases alleging t radiation from their products causes cancer. Computer keyboard makers have won rulings in cases alleging links to repetitive-stress injuries. Drug companies, too, have had some success. In one suit against Whitehall Laboratories Inc., the maker of Primatene asthma medication, all five of the plaintiff's experts were disqualified.

Surprisingly, it's not just doctors and scientists facing more grueling reviews. Economists, engineers, accountants, and other professionals are also getting grilled. In a Louisiana case earlier this year against Volkswagen of Germany, a $2 million verdict in a wrongful-death suit was set aside after an appellate court labeled as unreliable the testimony of three engineers about design defects in a car seat.

The court picked apart the qualifications of one engineer, who had testified on behalf of plaintiffs in several other automobile lawsuits. "Though he may have a generalized understanding of the mechanics of auto design, he could not make the necessary scientific or mathematical calculations upon which to base his theories," the court wrote, noting that the engineer received two Ds and an F in school. The case is on appeal.

Plaintiffs may hail the more demanding standard, but they fear that judges will take it too far. They question whether jurists should play such pivotal roles in issues they don't fundamentally understand. In the Bendectin case, for instance, plaintiffs say their experts are renowned scientists whose conclusions are based on sound principles. "It's a basic scientific question best answered by scientists," says Mary F. Gillick, a lawyer for plantiffs Daubert and DeYoung who on Aug. 1 asked the Supreme Court to review the case. "I don't think a court should be saying differently."

DUELING DATA. Particularly worrisome to plaintiffs are cases in which multiple studies clash, and victims have little time for the scientists to sort them out. In the breast implant litigation, for example, recent studies cast doubt on a connection between the implants and maladies suffered by women, bucking other experts' contention that a link exists. Plaintiffs' lawyers say the new research is flawed because it focuses on known diseases while their clients suffer from not-yet-diagnosed illnesses. "The current image is that silicone doesn't cause any disease," says plaintiff lawyer Michael L. Williams. "But the studies haven't been looking for the right disease."

The desire for more proof has led trial lawyers working on breast-implant cases to consider funding a study of their own. At a July meeting in New York, lawyers wrangled over whether to bankroll new research to the tune of $175,000. Some counsel feared that, regardless of outcome, defendants would brand the research as tainted by trial lawyers' money. Others argued that the group would gain more than they would lose. "Halitosis is better than no breath at all," said one lawyer. The issue was left unresolved.

All the fuss makes one thing clear: Evaluating science in the courtroom instead of the lab is a difficult endeavor, particularly when millions of dollars are on the line. The results are rarely black and white. "We're not looking for cosmic truth," says law professor Bernstein. "We're looking for the best evidence at hand." For the moment, that's about as close as the courts may be able to get to justice. For Daubert and DeYoung, it's still not close enough.

By Linda Himelstein in New York

Giving 'Junk Science' the Boot

FUNGICIDES The Texas Supreme Court in June dismissed a case against DuPont, finding that an expert's testimony was not grounded in sound science. Plaintiffs alleged that DuPont's fungicide Benlate had damaged their pecan orchard.

CARPAL TUNNEL SYNDROME A federal judge in May barred testimony of two doctors linking use of a computer keyboard made by Unisys to carpal tunnel syndrome, saying the doctors used unreliable methodology.

BRAIN TUMORS AND CELLULAR PHONES A federal judge in May threw out a case against NEC in which the plaintiff alleged that cellular-phone use caused his wife's brain tumor. An expert's testimony was ruled inconclusive.

BIRTH DEFECTS A U.S. District Court last year threw out expert testimony contending that birth defects were caused by taking Primatene asthma medicine during pregnancy. The reason: Evidence was scientifically invalid.

DATA BUSINESS WEEK

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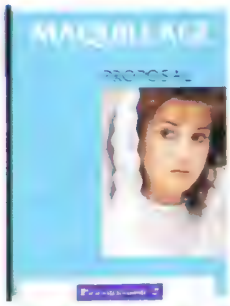

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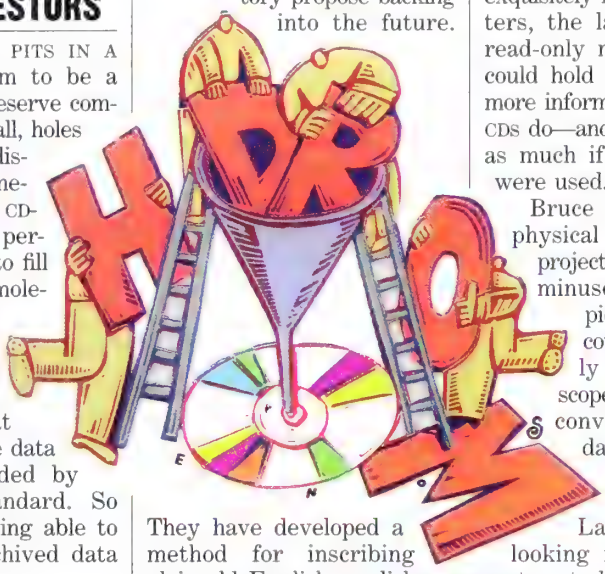
ALOG DISKS MAY ITLAST THEIR -ROM ANCESTORS

ASTING LITTLE PITS IN A ROM may seem to be a able way to preserve com- er data. After all, holes he road don't dis- ear unless some- fills them. But CD- I pits have a per- ous tendency to fill mselves with mole- s that migrate m the sur- nding materi- What's more, digital format d to record the data y be superseded by ne newer standard. So 't count on being able to rieve such archived data years from now.

To store information for much longer periods—say, 5,000 years—researchers at Los Alamos National Laboratory propose backing into the future.



They have developed a method for inscribing plain old English on disks made of highly stable materials such as iridium, using a focused ion beam. Because a focused ion beam can produce exquisitely fine dot-matrix letters, the lab's high-density read-only memory (HD-ROM) could hold perhaps 20 times more information than today's CDs do—and almost 200 times as much if a digital format were used.

Bruce C. Lamartine, a physical chemist and the project's leader, says that minuscule letters and pictures on the disk could be read directly under a microscope, or they could be converted to digital data with an optical character-recognition program. Lamartine is now looking for an industrial partner to help commercialize the technology.

LITTLE ZAP TO HELP P IMPLANTS LAST

TH SOME OF TODAY'S nentless hip replacements, portion of the implant t meets bone is encased in tanium wire mesh coated h hydroxyapatite (HA). s calcium compound en- rages natural bone to w into the implant. The uble is, coating the mesh uires high-temperature spraying. It's like trying to spray-paint a pile of chains: The HA doesn't get into all the nooks and crannies. And the heat can cause the metal and the coating to degrade.

Researchers at the University of Nebraska-Lincoln are attacking the problem with a technique akin to electroplating. First, they use electricity to form brushite crystals evenly on the mesh. The brushite can then be changed to pure HA by a simple chemical reaction. This avoids the adverse effects of a hot spray. All it requires is adding one step to the implant-manufacturing process. So the technique should cost as little as one-tenth as much as conventional HA coating. "In principle, it could be done with a couple of batteries," says chemist Jody G. Redepenning, who invented the process. Several companies have expressed interest in creating a product.

NEWS FROM THE WHITE-NOSE FRONT

FOR SUN LOVERS CURSED with fair and sensitive skin, there's good news: a new sunblocking lotion that relies solely on the reflective properties of titanium dioxide (TiO_2). It's already widely used in sunscreens. But the molecules tend to clump together, weakening their ability to deflect rays. To compensate, sunscreen makers add light-absorbing chemicals such as PABA, which can irritate skin and eyes.

By refining TiO_2, researchers at Nanophase Technologies in Burr Ridge, Ill., say they have eliminated the need for other chemicals. They vaporize the metal into tiny, ultrapure spheres that distribute themselves more evenly in lotion than the bulkier TiO_2 molecules do. Nanophase will market its sunblock, called Nanoguard, later this summer. Meanwhile, it's developing new TiO_2 products to protect paper, ceramics, and household fabrics, such as carpeting, from damaging rays.

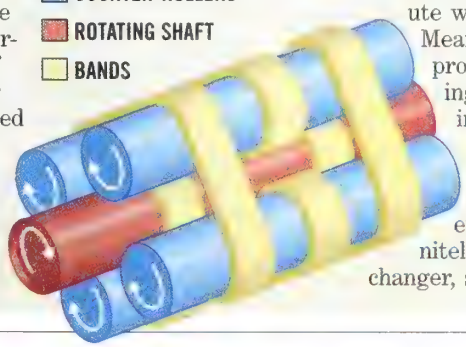
ANADIANS REINVENT THE WHEEL

HEY SET OUT TO DEVELOP cheap, durable bicycle for hird World transportation. ut inventors in Victoria, . C., came up with some- hing far more significant: a reaseless replacement for all bearings and roller earings for everything rom power drills to car heels. Interactive Design tudios (IDS) expects to re- eive a U. S. patent for the evice, known as a scroller oller band, and is pitching it to all of the world's biggest bearing companies.

The scroller roller band operates by surrounding a central rolling shaft or axle with three or more counter-rotating rollers. A band of spring steel or some other sturdy substance is wrapped between and around the rollers (illustration). There's almost no friction because the parts don't slide against each other or the band. Instead, as the shaft turns, it comes in and out of contact with different portions of the undulating band. IDS director Erik Brinkman says one Japanese bearing maker interested in licensing the band tested it at a swift 22,000 revolutions per minute with good results.

Meanwhile, the bicycle project lives: By making one of the rollers into a coil that expands in diameter when it spins faster, the scroller roller becomes an infinitely adjustable speed changer, says Brinkman.

A SCROLLER ROLLER BAND



ILLUSTRATIONS BY RANDALL ENOS, ROB DOYLE/BW

COMPUTERS

LOOK MA, NO HANDS

BUSINESS WEEK rides with "Ralph," the smartest car yet

I can't help noticing that "Ralph" steers like my brother-in-law Tony. As we pick our way through early morning traffic on the interstate highways around Kansas City, Ralph often jerks the wheel. It's a bit annoying. But I guess you have to expect some quirks in a digital driver that's barely five months old and steers our 1990 Pontiac Trans Sport minivan with the aid of just one eye: a video camera pointed at the highway from behind the rearview mirror.

I'm tagging along on an epic trip. By day's end, the computer program known as Ralph will autonomously navigate for 98.7% of the 644 miles across the Great Plains from Blue Springs, Mo., to Denver—the farthest ever traveled by a "smart" vehicle in one shot. Today is the longest leg of a 2,797-mile journey from Washington to San Diego, dubbed "No Hands Across America" by the Carnegie Mellon University researchers who put Ralph together.

DRAMATIC DEMO. The No Hands trip is more than just a gimmick. It's both a test and a dramatic demonstration of the state of the art in automated steering. (The computer can't yet handle the throttle or the brakes.) Last October, the Transportation Dept. awarded $202 million to the National Automated Highway Systems Consortium for just such projects. General Motors Corp. heads the 40-member consortium, which includes Carnegie Mellon as well as Bechtel, Hughes Aircraft, Martin Marietta, and the University of California. The goals: to reduce highway carnage and smooth traffic flow by developing intelligent roads and cars that drive better than most people do. Other projects include collision-avoidance sensors and systems that adjust stoplights to avoid gridlock. The contract calls for all these systems to emerge as prototypes by 1997, with deployment starting in 2001. Europe and Japan have similar projects.

It will be years before drivers fully surrender their grip on the wheel to the likes of Ralph. Still, by early 1996 some trucks may be equipped with less ambitious prototype. It wo steer—just sound an alarm and vibra the wheel when the vehicle begins leave the road. Cars could have simil alerts as options by 1999. Ralph's su port team from Carnegie Mellon's R botics Institute—research scientist De A. Pomerleau and graduate studen Todd M. Jochem—have formed a star up, AssistWare Technology, in Wexfor Pa., to commercialize technology to pr vent so-called road-departure accident which kill nearly 15,000 people a yea

Before we even reach Interstate 7 Ralph "crashes." Fortunately, we' standing still. Pomerleau had pulled just short of the on-ramp to prepa the vehicle for self-steering. Its glo positioning system had to be calibrat to steer with the help of satellites. was also time to switch on the data lo ger, which keeps a blow-by-blow reco of Ralph's performance. But when P merleau presses the appropriate ke on Ralph's computer—a Sparc LX po able workstation from RDI Comput Corp. in Carlsbad, Calif., that nestl between the front seats—the scre goes blank and the hard disk halts. winks back to life after a hasty rebo

The computer crashes occasionally b cause all the electronic gear draws

READY TO REV UP

Carnegie Mellon's computer system can run with just the Pontiac's standard power

er from the van's cigarette lighter, h is barely adequate for the task. , being able to run everything off van's standard power system is a improvement over Navigation Latory 1, which Pomerleau helped build 986 with funds from the Pentagon's anced Research Projects Agency A). To accomplish a fraction of what h does, Navlab 1 required a superouter, three workstations (table), and on-board generator. Navlab 2, an y Humvee, also needs a generator. Navlab 3, Pomerleau outfitted his da with Ralph and tested it while muting this past spring. Navlab 4 is cally a twin of Navlab 2. Navlab 5 is Ralph-equipped minivan.

H-HOUR DAZE. Pomerleau eases onto and glances at the small liquid-crysisplay mounted above the glove comment. It shows the view ahead from video camera, plus graphics overlays ted by Ralph. Pomerleau relinquishhe wheel when the curving blue es, indicating where Ralph calcu- the edges of the road to be, line up the actual edges in the TV picture. lmost immediately, we're surrounded commuters rushing to work. After eral cars cut in front of us, I ask t the jerky, Tony-like steering. Poleau explains that this happens when h momentarily loses sight of the lane kers ahead of the car that's changing s. When the rush-rough traffic gets

HARD DRIVE Pomerleau and Jochem surrender the wheel while Ralph navigates using its software grid

Progress Toward a Driverless Car

	NAVLAB 1 CHEVROLET VAN	NAVLAB 2 ARMY HUMVEE	NAVLAB 5 PONTIAC MINIVAN
YEAR "BORN"	1986	1991	1995
COST	$1 million	$500,000	$30,000
COMPUTERS	iWarp supercomputer and 3 Sun workstations	3 Sun workstations and 2 microcomputers	Sparc LX portable workstation and 1 microcomputer
TOP SPEED	1.5 mph	70 mph	91 mph*
LONGEST TRIP	2 miles	90 miles	644 miles
TOTAL MILEAGE	150 miles	1,000 miles	5,800 miles

*Test track

DATA CARNEGIE MELLON UNIVERSITY

really heavy, so many lane markers are obscured that Pomerleau has to grab the wheel often and override the computer.

Ralph's next test comes when we reach new pavement with temporary lane markings that Ralph has trouble discerning in traffic. Then we hit a construction zone, with plastic cones directing cars onto a strip of temporary pavement. Ralph is confused, so Pomerleau punches an "update" button that tells the computer to forget what it had been expecting to see and reevaluate the view ahead from scratch. In an eyeblink, Ralph finds the edge of the dark asphalt and repaints the LCD monitor to show it has learned the new roadway.

The Navlab team prefers to travel in the left lane because there Ralph won't encounter any right-hand edge stripes leading to an off-ramp. When the system can't find regular lane markings, such as painted stripes or reflecting studs, it can key in on other features: the edge of the road, dark lines left by tires, even the trail of oil spots down the center of most lanes. When all such signs vanish, Ralph shakes the wheel and beeps, alerting the human driver to take over.

Once we leave Kansas City behind, Pomerleau accelerates to 70 mph. After several cars pass us on the right, he speeds up to 75 mph and engages cruise control. We all settle back to let Ralph rack up autonomous miles.

Ralph steers by an ingenious bit of software. The computer ignores everything in the video image except a rectangular section of the roadway. The area that gets analyzed is 7 meters wide, or about twice the width of a lane. It starts 20 meters in front of the vehicle and extends out to 70 meters, typically, although the computer shifts the rectangle as needed: Just like a person, it looks farther ahead at higher speeds.

On the LCD monitor, this rectangular area is shown in perspective as a trapezoid outlined in red. It is carved into a grid with 32 columns and 30 rows. The computer inspects the rows sequentially, hunting for parallel features such as lane stripes. It detects curves by measuring the rate at which parallel features shift left or right. Each analysis of the entire grid takes about a tenth of a second.

FAST LANE. Ralph's program is so elegantly simple that it took less than a month to develop after it was suggested by Charles E. Thorpe, a senior research scientist at CMU's Vision & Autonomous Systems Center. One reason it went so quickly, says Pomerleau, is that it includes software developed for Alvinn, the brains of Navlab 1 and 2. Some $10 million in ARPA support has helped CMU accumulate more than a decade of expertise in computer vision.

For their next vehicle, Pomerleau and Jochem plan to blend Ralph and Alvinn, which steers using brainlike "neural network" software. The video camera's field of view will be widened, and Alvinn will deal with things that can befuddle Ralph, such as freeway off-ramps and intersections on curves.

My ride with Ralph ends at the Topeka (Kan.) airport, where I pick up a rental car. Since I have time to kill, I follow Ralph westward, then speed ahead to take a picture of the minivan passing by. As I pull onto the shoulder, a state trooper follows. "I'll be with you in a second," I say. He watches me take the photo and asks, "Is that why you were doing 85?" I tell him about Ralph, and he's so fascinated that he lets me off with a warning.

By Otis Port
on Interstate 70 in Kansas

TELECOMMUNICATIONS

A BIG BREAK FOR SMALL OPERATORS?

U.S. telecom reform may boost tiny long-distance carriers

In the debate over telecommunications reform that has been going on in Washington all year, it's easy to assume that the argument is one between a handful of corporate behemoths fighting for the right to add billions of dollars to their already bulging coffers. On one side of the fight to open up telephone calling to greater competition are the seven huge regional Bell operating companies (RBOCs), which control some 98% of local phone markets in this country. On the other side are the three long-distance giants—AT&T, MCI Communications, and Sprint, which together carry 90% of all toll calls.

Not so. Some of the biggest opportunities in any overhaul of the telecommunications landscape will fall to the 500 or so long-distance companies that scramble for the 10% of the market that the Big Three don't reach directly. These so-called second- and third-tier carriers—many of which simply resell calls for AT&T, Sprint, and MCI—range in size from WorldCom, the No. 4 long-distance company, with $2.2 billion in annual revenues and a 4.9% market share, to obscure regional or niche players with names such as MIDCOM Communications and Working Assets Long Distance, whose market shares can barely be measured.

For any outfit that's seeking a quick entrée into the long-distance business, these small fry have big potential. "There's one school of thought that the Baby Bells may be looking to acquire some of these second-tier players as a kind of a quick bootstrap up into the long-distance industry," says Merrill Lynch & Co. analyst Mark Kasten. "A acquisition is a great way for them to get customers and an easy way to ent the business."

Wall Street is betting on just such scenario. WorldCom, Frontier, and LCI International, the fourth-, fifth-, a sixth-largest long-distance carriers, respectively, all saw their stocks hit reco highs at the end of July, as the Hou version of the telecom-reform bill, H. 1555, neared a vote. The latest versi —the most Bell-friendly version of t bill yet—would let the regional pho companies apply to off long-distance service wi out waiting for significa competition to emerge their local markets. Th means the Bells could st offering long-haul service early as two years fr now. Buying, not buildi might be the easiest way them to start.

ON A SPREE. Second-t players may also prove lure to foreign carriers lo ing for a U.S. foothold, si the proposed bill loosens f eign ownership restricti of telephone compani "Everyone in Europe exc [France Telecom and De sche Telekom] has come us," says Ronald L. Bittr chairman of Frontier Corp. (forme Rochester Telephone Corp.). "We rea have no plans now, but it's not bey the realm of possibility."

And if the Bells and foreigners d come knocking, chances are another s ond-tier player will. WorldCom, Front and LCI have been on a buying spree more than a year (table) and don't p to stop now. Even after spending billion in cash and stock on WilTel IDB Communications seven months a WorldCom Inc. says it is still look

Who's On Second

The leading members of the second tier of long-distance carriers

WorldCom

(Formerly LDDS Communications)

1994 REVENUES: $2.2 BILLION
LONG-DISTANCE MARKET SHARE: 4.9%

As the fourth-largest long-distance carrier with its own nationwide network, WorldCom is an obvious partner for companies looking to enter the business. It has led the second-tier consolidation with its acquisitions of IDB Communications and WilTel.

Frontier

(Formerly Rochester Telephone Corp.)

1994 REVENUES*: $1.9 BILLION
MARKET SHARE: 1.8%

Frontier has also been on a buying spree and will vault from seventh- to fifth-largest carrier when its acquisition of ALC Communications Corp. is completed. With its local, long-distance, and wireless operations, Frontier is an attractive target as a "one-stop" provider.

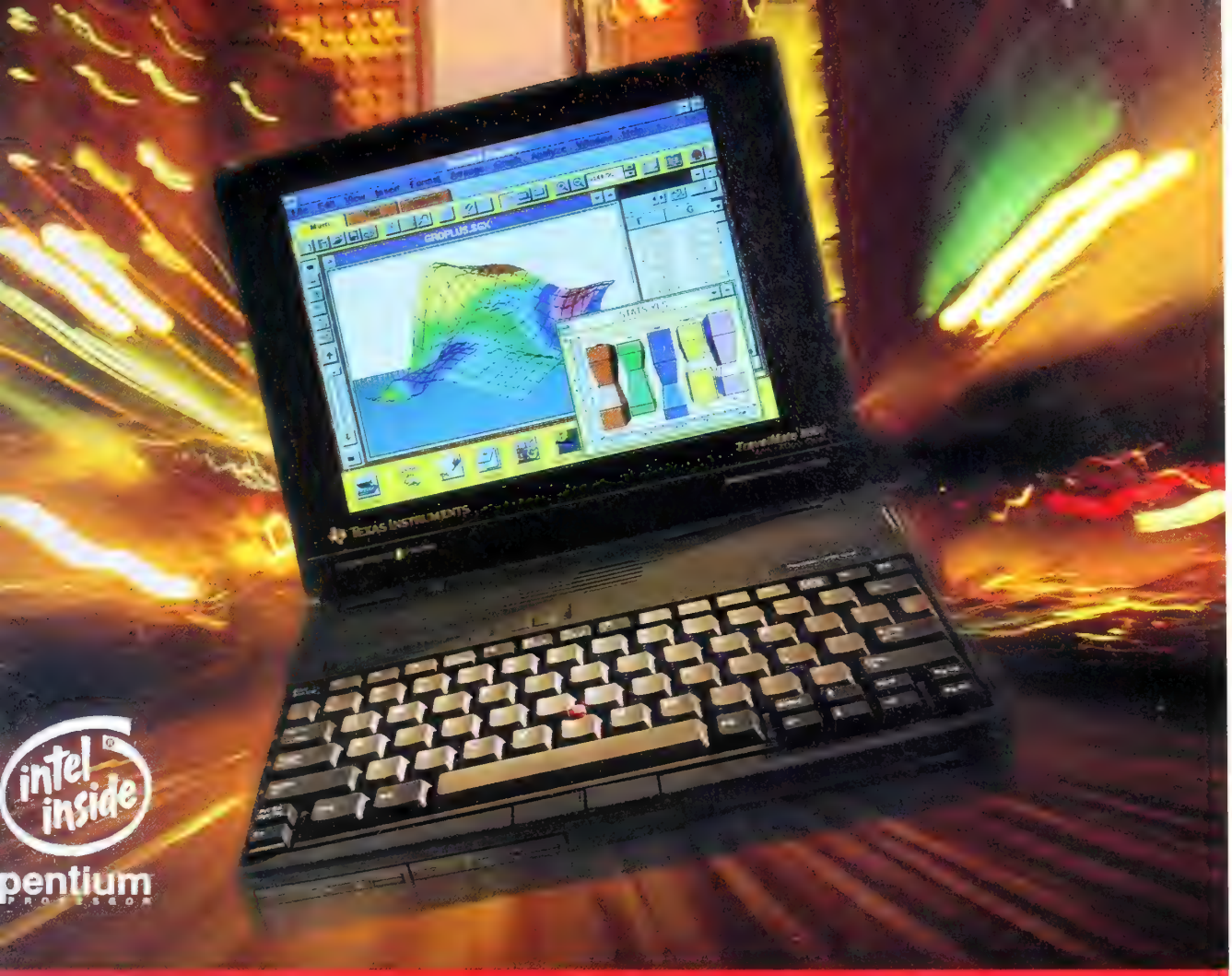
*Adjusted for pending ALC acquisition

LCI International

1994 REVENUES: $464 MILLION
MARKET SHARE: 0.8%

LCI is the fastest-growing of these three long-distance carriers. Start in 1983 as a regional carrier in Oh and Michigan, LCI now operates a nationwide network and is known its savvy marketing and simple pr ing plans.

DATA: COMPANY REPORTS, MERRILL LYNCH & CO.



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for takeover targets. LCI International Inc. is also eager to acquire, and it has a $450 million credit line to help it do so (box).

Telecom deregulation could also provide WorldCom, Frontier, and LCI with seven huge new customers. Because the three have their own nationwide networks, the Baby Bells may look to them to buy long-distance capacity rather than AT&T, MCI, and Sprint, which are planning to spend big bucks going after the local calling market. Says WorldCom CEO Bernard J. Ebbers: "We intend to be in relationships with the Bells, cellular carriers, and cable companies to load traffic on our network."

BULK BUYING. That opportunity, though, is not available to the other 500 or so long-distance carriers. Rather than possessing their own networks, most of them make a living by purchasing long-distance service at bulk rates from the Big Three and then reselling it to customers under their own brand. The 30%-40% difference between wholesale and retail prices allows for a very healthy business: Revenues from resold long-distance services grew at a compound annual rate of 31% between 1993 and 1995, to $8.8 billion, according to the Boston consulting firm Atlantic-ACM.

Resellers primarily target small and midsize businesses that, they say, the Big Three serve halfheartedly. They gain loyal subscribers by providing such personal services as custom bills—itemized in any way the customer wants. "We're mom-and-pop shops," says Robert T. Hale Jr. of Network Plus Inc., an $80 million-a-year reseller in Quincy, Mass.

But these small shops may find it tough going once telecom reform lets in a slew of new competitors. The Bells in particular could be formidable in the small-business market, with their ability to bundle services and offer customers one bill for local and long distance. Not to mention brand names that are a little more familiar than, say, Total-Tel USA Communications Inc., of Clifton, N.J.

Then again, Total-Tel demonstrates why resellers may continue to thrive. Total-Tel may have had only $19 million in sales last year, but that figure represents more than 100% growth for three consecutive years. "In the second tier, if your growth rate goes from 40% to 30% because the Bells get in, that's still very respectable," says Bruce J. Roberts, telecom analyst at Ladenburg, Thalmann & Co. Might be a good time to bone up on some of those lesser names.

By Catherine Arnst in New York, with Mark Lewyn in Washington

LCI: FOR WHOM THE BELLS MAY TROLL

With less than a 1% share of the $70 billion long-distance business, LCI International Inc. is not costing the Big Three carriers much sleep. But maybe they should pay closer attention. LCI is prime takeover bait for the Baby Bells, which will be free to enter the long-distance business if Congress passes telecommunications-reform legislation this fall. The Baby Bells "are certainly possible acquirers," says analyst Bruce J. Roberts of Ladenburg, Thalmann & Co. And LCI is an attractive target. The No. 6 carrier's revenues are expected to soar 34%, to $622 million, in 1995.

LEADING EDGE: *Thompson offers flat rates—no matter how far you call*

That's not bad for a company that was near bankruptcy just four years ago. LCI was on the verge of defaulting on $70 million in high-yield "junk" bonds in 1991. The McLean (Va.) company was overstaffed and choking on bad acquisitions. And it took its eye off its core business to pursue new markets such as cellular calling and videoconferencing.

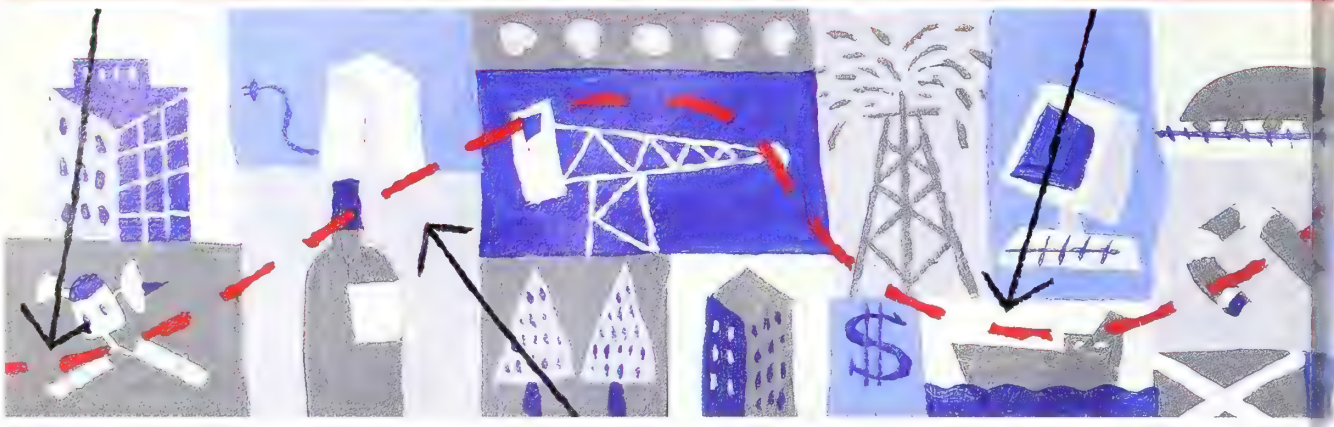
"MCI LITE." Enter CEO H. Brian Thompson, 56. In 1990, he had left MCI Communications Corp., where he was executive vice-president, because it appeared he would never grab the top job. S.G. Warburg & Co., a major LCI investor, asked him to give the company a once-over. Thompson liked what he saw and signed on as chairman and CEO in July, 1991. Warburg pumped in $37 million in capital, while Thompson cut a new deal with bondholders. Then, he started raiding MCI. Nine of LCI's top 11 managers are former MCIers, prompting some wags to call LCI "MCI Lite."

Thompson hacked away at the company's cost structure, laying off 25% of the workforce. He cleaned up the balance sheet and dumped the peripheral businesses. Then, he changed the company's focus from that of a regional Midwest player to a national carrier offering a full range of services to corporations and residential customers. Today, LCI's 1,400-mile network in the Midwest is the nucleus of a nationwide system covering some 60 million circuit miles—a big draw for an acquisitive Bell. "They're one of the few companies in the second tier that have their own facilities," notes analyst Stuart P. Conrad of C.J. Lawrence/Deutsche Bank Securities.

Thompson also has a lot of experience slugging away at the industry giants. His big innovation: LCI was the first long-distance company to offer a flat phone rate—no matter how grea the distance. Thompson found another edge by exposing one of the industry's dirty little secrets: The Big Three carriers round each residentia call up to the next full minute. He claims the practice costs consumers upward of $2 billion a year. LCI, by contrast, bills in six second increments. That and flat billing have helped LCI expand its residential business sixfold since 1993, to 20% revenues.

Thompson says that he is not interested in selling out, now that the business is going so well. But h acknowledges that he has held infor mal talks with a number of companies and would be stupid if he refused to accept a good offer. For now, LCI is doing the buying. In Ma Thompson announced plans to acquire long-distance carrier Corporat Telemanagement Group Inc. for $12 million. In an industry where bigge is better, LCI may be the focus of a lot of eyes.

By Mark Lewyn in McLean, V



ONLY THE SIZZLE IS GONE

Despite the economy's soft landing, corporate profits are still hot

It takes a licking and keeps on ticking. Like that Timex watch of old, Corporate America's profits machine just won't give up. Even as the overall economy landed with a near-thud in the second quarter, continued strong demand for capital goods and strength in many cyclical sectors propelled profits upward. Earnings for the 900 companies on BUSINESS WEEK's Corporate Scoreboard rose 19%. While that's well off last quarter's sizzling 30%, the mainspring hasn't wound down yet.

The growth comes despite the fact that the Federal Reserve Board's long-awaited soft landing—engineered by successive interest rate hikes—has arrived. Real gross domestic product grew just 0.5% in the second quarter. The main culprits: a sharp slowdown in inventory buildup, reduced Mexican e

Winners And Losers In Second-Quarter Profits

THE INDUSTRIES

THE LEADERS	PERCENTAGE CHANGE FROM 1994'S SECOND QUARTER
ALUMINUM	979%
PAPER CONTAINERS	779
FOREST PRODUCTS	334
NONFERROUS METALS	215
PAPER	204
COAL, OIL & GAS	90
PETROLEUM SERVICES	75
COMPUTERS & PERIPHERALS	70
STEEL	64
TRUCKING & SHIPPING	62
CHEMICALS	58
BUILDING MATERIALS	56
COMPUTER SOFTWARE	41
SEMICONDUCTORS	40
SPECIAL MACHINERY	35

THE LAGGARDS	PERCENTAGE CHANGE FROM 1994'S SECOND QUARTER
APPLIANCES	–70%
AEROSPACE & DEFENSE	–69
BROADCASTING	–43
GENERAL MANUFACTURING	–39
CONSTRUCTION/REAL ESTATE	–37
RETAILING	–19
RAILROADS	–17
TELECOMMUNICATIONS	–14
CARS & TRUCKS	–12
BUSINESS MACHINES & SVCS	–12
APPAREL	–3
HOTEL & MOTEL	–3
FOOD DISTRIBUTION	–2
SAVINGS & LOAN	–2
GLASS CONTAINERS	–1

ALL-INDUSTRY AVERAGE: +19%

THE COMPANIES

WHO MADE THE MOST	MILLIONS OF DOLLARS
GENERAL MOTORS	$2,270
GENERAL ELECTRIC	1,726
IBM	1,716
EXXON	1,630
FORD MOTOR	1,572
PHILIP MORRIS	1,410
AT&T	1,355
DUPONT	938
COCA-COLA	898
INTEL	879
MERCK	858
CITICORP	853
JOHNSON & JOHNSON	661
BANKAMERICA	645
AMERICAN INT'L GROUP	634

WHO LOST THE MOST	MILLIONS OF DOLLARS
CORNING	–$297
AETNA LIFE & CASUALTY	–297
BOEING	–231
MAYTAG	–101
PAINEWEBBER GROUP	–91
WOOLWORTH*	–80
SALOMON	–60
FEDERATED DEPT. STORES*	–57
LOCKHEED MARTIN	–53
WESTPOINT STEVENS	–52
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BROADWAY STORES*	–43
AMERADA HESS	–40
BRADLEES*	–31
KMART*	–28

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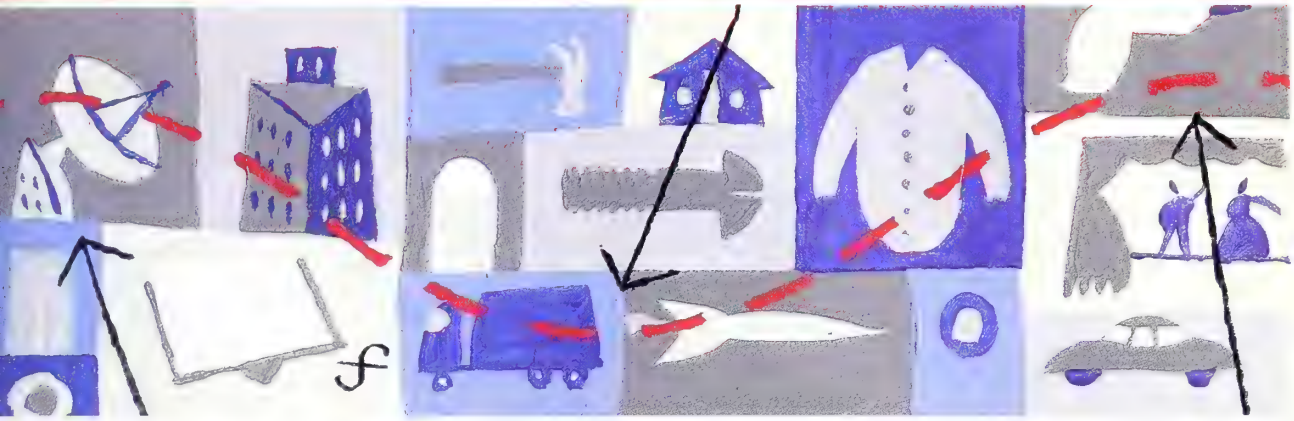


rts, and poor housing and auto sales. nsumer spending has also slackened. So far, however, profit growth has rely slowed, not stopped. That's large- because demand hasn't fallen any- ere near as much as the GDP figures uld indicate. Sales for the 900 com- nies rose 13%, to $1.2 trillion, the gest leap since early 1984. But rather n producing at last year's breakneck e, companies are adding to their in- ntories at a slower rate. Nonfarm entories in the second quarter rose an annual rate of $30.4 billion, almost f the growth of the first quarter. So nings remain strong, since many com- nies are filling new orders from their lves, without incurring new costs.

Many also continue to benefit from structuring. Although price discount- prompted by weak consumer spend- has eroded profit margins—they hit %, down from last quarter's 6.5%— rgins remain the best in 20 years. d the weak dollar is bolstering profits such international powerhouses as ca-Cola Co. and Merck & Co.

MPORARY FLATTENING. Where do we from here? Most expect the economy pick up again soon. BUSINESS WEEK nomists estimate that GDP growth in e second half will run 2% to 2½%. he flattening out was temporary," ys Morgan Stanley & Co. economist ephen S. Roach. "It's not indicative the economy heading toward a pre- ture recession." He and others ex- ct renewed growth to bring slightly gher profits through yearend, though one expects a return to 1994's peaks.

General Motors Corp. offered a lesson the benefits of cost-cutting. The No. 1 maker stayed at the top of the list of SINESS WEEK's top 15 profit-spinners. ofits rose 18%, to $2.27 billion on a 9% es hike, to $44 billion, as margins hit %, up from 4.8% in 1994. Still, though orth American auto revenues im- oved slightly, margins there remain eak and inventories are building.

At that, GM did far better than its Detroit brethren. High prices and sluggish consumer demand have slowed auto sales since January, forcing all three into expensive rebates. And to make way for the launch of its new Taurus sedan, Ford Motor Co. has heavily discounted its remaining 1995 models, while its use of overseas components also raised costs. The result: Lower profits per vehicle drove Ford's earnings down 8%, to $1.6 billion, despite an 8% gain in revenues, to $36 billion. But Chrysler Corp., which has no meaningful foreign sales to balance the slowing U. S. market, took the biggest hit. Net income fell to $135 million, down 86% from $956 million a year ago. Big incentives to clear bloated inventories and the expensive launch of new minivans slashed profits.

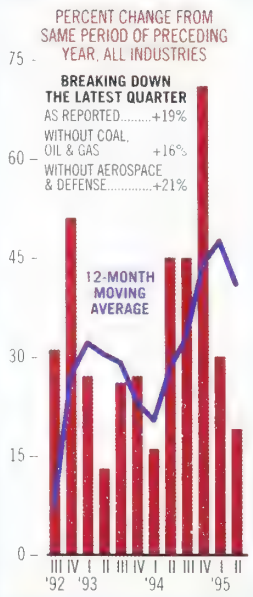
For the cyclicals, things couldn't be more different. Continued strong demand and high prices helped paper, steel, metals, and chemicals chalk up huge gains. Earnings at International Paper Co. more than tripled, to $316 million, on sales up 42%, to $5.1 billion.

The airline industry also proved a winner. Combined industry earnings hit $1 billion, far from last year's puny $3.8 million. Delta Airlines Inc. led, posting profits of $251 million—virtually equal to its second-quarter loss a year ago. The Atlanta-based carrier has shut unprofitable routes, trimmed costs, and enjoyed strong profits on trans-Atlantic routes.

Computer and components makers also were top performers. IBM turned in profits of $1.72 billion, up 149% on revenues of $17.5 billion, a 14% gain. Strong demand for mainframes and services, and continued restructuring provided the key. Booming sales to tele-

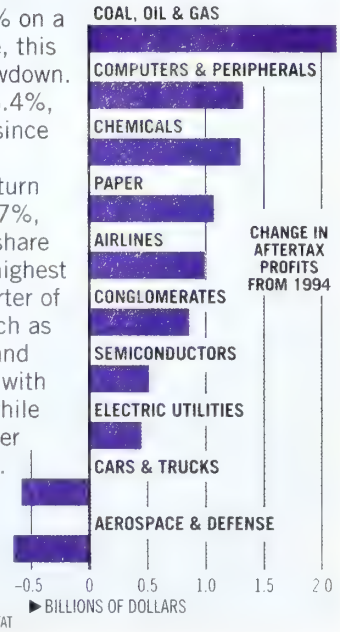
A Spotlight on Second-Quarter Profits

AFTERTAX PROFITS QUARTER BY QUARTER



INDUSTRIES WITH THE BIGGEST DOLLAR CHANGE IN THE QUARTER

With profits up 19% on a 13% sales increase, this is no economic slowdown. Profit margins, at 6.4%, beat every quarter since 1973—except last quarter's 6.5%. Return on equity topped 17%, and at $2.65, per-share earnings were the highest since the third quarter of 1989. Cyclicals such as aluminum, paper, and forest products led with triple-digit gains, while the red-hot computer sector was up 70%. But auto makers and aircraft manufacturers hit the skids.

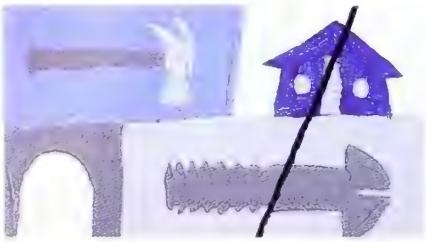


DATA: STANDARD & POOR'S COMPUSTAT

Companies are filling orders out of inventories. That means strong earnings without new costs

communications and PC suppliers also kept semiconductor makers hot: Earnings at Texas Instruments Inc. rose 51%, to $278 million, while Intel Corp.'s profits grew 37%, to $879 million.

Elsewhere, the second quarter contained disappointments. As an industry, aerospace ranked among the worst. The biggest loser: Boeing Co., which lost $231 million after taking a $600 million restructuring charge. Despite an upturn in plane orders that boosted revenues 3%, to $5.6 billion, Boeing is still battling to reduce costs. After merger-related



charges of $525 million, Lockheed Martin Corp. booked losses of $53 million.

Retailers, too, continue to struggle. For the most recent quarter, industry earnings fell 19%. AnnTaylor Stores, Lands' End, and Toys 'R' Us all go hurt by cautious consumer spending. Still, the news wasn't all bad. As consumers gravitated toward value and low pricing, Wal-Mart Stores Inc. saw profits rise 11%, to $553 million. And at Sears Roebuck & Co., revamped merchandise and snazzy ads sent earnings up 14%, to $218 million. With recessionary fears abating, many hope that's a sign consumer spending could again provide the spark to keep profits growing.

By Sunita Wadekar Bhargava in New York

CAPITAL SPENDING SLOWS TO A CANTER

Sure was nice while it lasted. As the American economy boomed over the last three years, so did capital expenditures. Sales of everything from computers to trucks to machine tools soared, and the U. S. enjoyed the strongest capital-spending boom since the 1960s. Now, as the economy slips into lower gear, the torrid pace of business spending is likely to cool off as well.

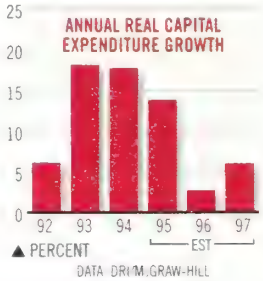
Capital spending took off, starting in 1992, for the usual demand-driven reasons. As economic activity increased, industrial capacity was taken up, forcing manufacturers to add equipment to boost production. Record profits—always the most powerful impetus to business spending—funded the purchases. Now, says Mark Zandi, chief economist at Regional Financial Associates Inc. in West Chester, Pa., the economic drivetrain is shifting into reverse. After growing a red-hot 5.1% at the end of 1994 and 2.7% in early 1995, the economy stopped nearly dead in the second quarter. Real gross domestic product grew just 0.5%. In the second half, Zandi expects growth to hit 1.8%, then revive next year to about 2.7%.

The result: The recent double-digit gains in real capital spending are fast disappearing. After growing 18% in 1993 and 17.6% in 1994, spending is expected to slow to around 14% this year. Next year, lagging behind the slowdown in output growth, capital goods expenditures will rise more slowly. Zandi predicts a gain of 5%. But consensus is hard to find: Though DRI/McGraw-Hill is predicting a gain of just 2.6%, optimists expect growth in the high single digits.

Clearly, the spending boom won't go completely bust. Throughout this cycle, several special factors have fueled the rise in capital spending—and those trends are not likely to end any time soon.

RICH COUNTRIES. First is the rush by corporations to substitute capital for labor—a shift that shows no signs of abating. "It's a phenomenon in all rich countries," observes Rosanne M. Cahn, chief economist of the equity department at CS First Boston Co. With interest rates, inflation, and capital goods prices low—or even declining, as with computers—the cost of capital versus labor has fallen markedly. Zandi figures that the annual after-tax cost of financing the purchase of equipment is about 4.25% today, compared with 12% in 1982. Although unit labor costs are now increasing at less than 1% annually, they've nonetheless risen 39.2% over the same period.

THE SPENDING BOOM WILL EASE



Also bolstering spending is the need to replace outdated capital stock, particularly computers. The information-technology revolution is rendering much equipment obsolete at a breakneck pace. In real terms, spending on computers jumped 52% in 1993 and 27% in 1994. It's slated to grow 23% this year and an additional 12% in 1996, according to DRI/0McGraw-Hill. A forthcoming government revision will reduce these numbers somewhat, but aggressive spending on computers and telecommunications equipment will continue. "The qualitative nature of this boom will not change," says Allen Sinai, chief economist at Lehman Brothers Inc.

Those factors should keep the capital-spending party from petering out altogether. After next year's slowdown, economists expect expenditures to rebound to a pace at least double that of output growth, as the economy itself picks up again. By 1997, DRI/McGraw-Hill expects spending to bounce back to 5.9%—a more than respectable showing as the expansion moves through its middle age.

By Karen Pennar in New York

Second Quarter 1995

CORPORATE SCOREBOARD

ossary

LES: Includes all sales and er operating revenues. For ıks, includes all operating enues.

OFITS: Net income before raordinary items. For banks, profits are net income after security gains or losses.

MARGINS: Net income from continuing operations before extraordinary items as percent of sales.

RETURN ON COMMON EQUITY: Ratio of net income available for common stockholders (most recent 12 months) to latest available common equity, which includes common stock, capital surplus, and retained earnings.

PRICE-EARNINGS RATIO: Based on July 21, 1995, common-stock price and corporate earnings from continuing operations before extraordinary items for most recent 12-month period.

EARNINGS PER SHARE: For most recent 12-month period. Includes all common-stock equivalents.

OMPANY	SALES				PROFITS				MARGINS				
	2ND QUARTER 1995 $ MIL	CHANGE FROM 1994 %	6 MONTHS 1995 $ MIL	CHANGE FROM 1994 %	2ND QUARTER 1995 $ MIL	CHANGE FROM 1994 %	6 MONTHS 1995 $ MIL	CHANGE FROM 1994 %	2ND QUARTER 1995 %	2ND QUARTER 1994 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 6 30	PRICE-EARNINGS RATIO 7-21	12 MONTHS' EARNINGS PER SHARE
LL-INDUSTRY COMPOSITE	**1150402.7**	**13**	**2256100.1**	**13**	**73387.6**	**19**	**145359.9**	**25**	**6.4**	**6.0**	**17.1**	**16**	**2.65**
AEROSPACE & DEFENSE													
IDUSTRY COMPOSITE	24437.7	5	47160.5	4	288.9	–69	1007.1	–45	1.2	4.0	9.7	24	2.66
OEING	5558.0	3	10595.0	–10	–231.0	NM	–50.0	NM	NM	4.1	3.0	74	0.85
NCORP (1)	461.9	–1	890.0	2	16.3	15	23.3	112	3.5	3.0	–3.2	NM	–0.03
NERAL DYNAMICS	703.0	–14	1456.0	–10	61.0	9	121.0	9	8.7	6.8	17.2	13	3.69
CKHEED MARTIN	5606.0	1	11251.0	6	–53.0	NM	84.0	–84	NM	4.7	10.6	20	3.09
cDONNELL DOUGLAS	3922.0	21	7255.0	17	169.0	22	328.0	21	4.3	4.2	16.8	14	5.61
ORTHROP GRUMMAN	1759.0	4	3376.0	16	79.0	22	133.0	14	4.5	3.9	3.8	55	1.03
OHR (5)	210.8	–5	430.5	–6	2.6	NM	5.8	NM	1.2	NM	5.0	34	0.43
UNDSTRAND	377.0	14	723.0	10	27.0	41	9.0	–76	7.2	5.8	14.3	30	2.09
NITED TECHNOLOGIES	5840.0**	6	11184.0	8	218.0	32	353.0	52	3.7	3.0	18.1	15	5.37
AUTOMOTIVE													
IDUSTRY COMPOSITE	110956.5	8	219648.9	11	4818.3	–9	9792.6	5	4.3	5.2	24.7	7	5.15
) CARS & TRUCKS													
ROUP COMPOSITE	95866.4	7	190060.0	10	4088.1	–12	8461.4	3	4.3	5.2	25.4	6	6.06
HRYSLER	12500.0**	–5	26100.0	–1	135.0	–86	727.0	–62	1.1	7.3	22.9	7	6.88
ORD MOTOR	36389.0	8	71172.0	11	1572.0	–8	3122.0	19	4.3	5.1	23.5	5	5.40
NERAL MOTORS	44146.2**	9	87431.1	12	2270.0	18	4424.0	25	5.1	4.8	29.3	7	7.04
AVISTAR INTERNATIONAL (2)	1626.0	17	3028.0	20	46.0	100	69.0	77	2.8	1.7	16.2	11	1.40
ACCAR	1205.3**	13	2329.0	13	65.1	29	119.4	27	5.4	4.7	19.0	9	5.91
) PARTS & EQUIPMENT													
ROUP COMPOSITE	11185.8	17	21907.7	20	506.9	14	927.7	21	4.5	4.6	22.1	12	2.68
RVIN INDUSTRIES	566.6	5	1120.0	10	5.5	–61	9.9	–48	1.0	2.6	–6.7	NM	–1.18
UTOMOTIVE INDUSTRIES HOLDING	188.4	46	377.1	59	12.2	21	21.9	30	6.5	7.8	17.0	16	2.05
ORG-WARNER AUTOMOTIVE	356.0	14	683.8	14	21.0	12	38.6	19	5.9	6.0	12.7	10	3.01
UMMINS ENGINE	1361.0	13	2695.0	17	69.0	4	136.0	13	5.1	5.5	24.3	7	6.48
ANA	1968.8**	15	3893.2	18	89.1	31	148.3	28	4.5	4.0	26.7	11	2.61
ETROIT DIESEL	552.5	34	1083.1	32	12.7	43	24.7	43	2.3	2.2	15.6	12	1.78
ONALDSON (5)	186.8	21	355.6	23	11.5	18	19.1	20	6.1	6.3	17.4	19	1.38
AGLE-PICHER INDUSTRIES (1)	225.4	14	423.0	13	16.8	14	29.8	16	7.4	7.4	NM	NA	4.79
ATON	1758.0	14	3489.0	20	110.0	28	218.0	36	6.3	5.6	22.1	11	5.04
CHLIN (4)	745.1	22	1393.2	26	47.8	22	76.8	26	6.4	6.4	16.6	15	2.45
XCEL INDUSTRIES	158.7	–2	320.7	2	4.1	–25	10.3	–2	2.6	3.4	13.3	9	1.59
EDERAL-MOGUL	506.3	7	1030.6	10	14.2	–30	28.4	–20	2.8	4.3	8.7	15	1.34
AYES WHEELS INTERNATIONAL (11)	159.7	20	298.9	23	8.3	5	15.2	–3	5.2	5.9	13.4	13	1.72
EAR SEATING	1142.6	39	2186.1	45	28.9	37	45.9	66	2.5	2.6	36.0	18	1.57
ODINE MFG. (9)	239.2	15	481.5	20	16.0	8	35.4	37	6.7	7.1	21.7	15	2.27
MITH (A. O.)	399.8	14	792.8	15	20.0	12	38.4	14	5.0	5.1	17.9	9	2.97
PX	293.4	3	569.1	2	3.6	–46	3.8	–60	1.2	2.3	4.7	21	0.61
TANDARD MOTOR PRODUCTS	184.0	–2	343.8	3	8.3	1	12.2	11	4.5	4.4	12.5	11	1.90
ABASH NATIONAL	193.5	41	371.1	46	8.1	31	15.0	37	4.2	4.5	17.4	25	1.48
) TIRE & RUBBER													
ROUP COMPOSITE	3904.3	10	7681.2	11	223.4	5	403.5	9	5.7	6.0	20.2	12	3.15
ANDAG	182.9	16	351.2	21	24.9	15	44.5	20	13.6	13.7	22.8	16	3.86
OOPER TIRE & RUBBER	371.4	13	736.7	12	24.7	–10	51.9	–4	6.6	8.3	18.0	16	1.51
OODYEAR TIRE & RUBBER	3350.0	10	6593.3	11	173.8	7	307.1	10	5.2	5.3	20.4	11	3.93

) Second quarter ended May 31. (2) Second quarter ended Apr. 30. (3)Third quarter and most recent six months ended June 30. (4) Third quarter and most recent six months ended May 31. (5) Third quarter and most recent months ended Apr. 30. (6) Fourth quarter and most recent six months ended June 30. (7) Fourth quarter and most recent six months ended May 31. (8) Fourth quarter and most recent six months ended Apr. 30. (9) First arter and most recent six months ended June 30. (10) First quarter and most recent six months ended May 31. (11) First quarter and most recent six months ended Apr. 30. *Sales include excise taxes. **Sales include oth- income. ***Sales include excise taxes and other income. †Revenues from major subsidiaries not included in consolidated sales. Earnings per share are for latest 12 months, not necessarily for end of most recent fiscal year; ey include all common-stock equivalents but exclude extraordinary items. NA = not available. NM = not meaningful.

DATA: STANDARD & POOR'S COMPUSTAT, A DIVISION OF THE McGRAW-HILL COMPANIES

CORPORATE SCOREBOARD

COMPANY	SALES 2ND QUARTER 1995 $ MIL	CHANGE FROM 1994 %	6 MONTHS 1995 $ MIL	CHANGE FROM 1994 %	PROFITS 2ND QUARTER 1995 $ MIL	CHANGE FROM 1994 %	6 MONTHS 1995 $ MIL	CHANGE FROM 1994 %	MARGINS 2ND QUARTER 1995 %	MARGINS 2ND QUARTER 1994 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 6-30	PRICE-EARNINGS RATIO 7-21	12 MONTHS' EARNINGS PER SHARE
3 BANKS													
INDUSTRY COMPOSITE	59540.8	14	116619.3	15	7645.9	7	14649.2	5	12.8	13.7	15.5	10	4.17
(A) BANKS - EAST													
GROUP COMPOSITE	27702.0	6	54447.7	7	3206.7	1	6003.0	–2	11.6	12.2	15.3	11	4.50
BANK OF BOSTON	1339.5**	30	2666.1	34	133.3	41	258.7	31	10.0	9.2	16.6	9	4.30
BANK OF NEW YORK	1272.0	30	2495.0	32	226.0	29	438.0	24	17.7	17.9	17.7	9	4.33
BANKERS TRUST NEW YORK	1897.0	16	3566.0	11	91.0	–50	–66.0	NM	4.8	11.1	4.3	30	2.07
BAYBANKS	249.9**	19	490.7	21	34.4	30	64.8	36	13.8	12.6	15.3	13	6.46
CHASE MANHATTAN	2858.0**	–8	5572.0	–8	281.0	–8	541.0	–19	9.8	9.9	13.4	9	5.27
CHEMICAL BANKING	3728.0**	21	7264.0	19	453.0	27	838.0	24	12.2	11.6	14.3	9	5.44
CITICORP	6976.0	–14	13835.0	–13	853.0	–3	1682.0	18	12.2	10.8	23.2	8	7.54
FIRST FIDELITY BANCORPORATION	670.8	11	1333.4	11	115.3	3	228.2	4	17.2	18.4	16.1	12	5.36
INTEGRA FINANCIAL	305.9**	15	602.3	11	39.9	–4	80.1	–10	13.1	15.7	16.8	11	4.82
MBNA	622.2	47	1158.6	43	76.8	32	145.6	32	12.3	13.8	31.6	17	2.00
MELLON BANK	1112.0**	16	2195.0	14	172.0	9	342.0	9	15.5	16.5	10.5	15	2.67
MERIDIAN BANCORP	349.6**	18	681.0	18	25.9	–36	67.2	–17	7.4	13.7	12.1	14	2.58
MIDLANTIC	300.0**	5	585.7	9	56.4	–22	109.7	–13	18.8	25.2	19.0	10	4.88
MORGAN (J. P.)	2405.0	18	4875.0	26	315.0	–10	570.0	–18	13.1	17.2	11.7	13	5.42
PNC BANK	1288.0	13	2535.5	13	137.0	–27	262.6	–33	10.6	16.4	10.9	12	2.04
REPUBLIC NEW YORK	703.4**	15	1414.4	18	11.1	–86	98.6	–38	1.6	13.0	12.1	12	4.56
SHAWMUT NATIONAL	700.3	27	1364.1	26	82.6	NM	145.2	148	11.8	NM	14.6	12	2.52
STATE STREET BOSTON	606.9**	32	1187.3	29	62.7	16	117.0	8	10.3	11.7	15.7	13	2.78
UJB FINANCIAL	317.6**	17	626.6	18	40.3	41	80.3	40	12.7	10.6	13.7	13	2.76
(B) BANKS - MIDWEST													
GROUP COMPOSITE	14249.0	20	27884.6	20	1958.4	8	3802.8	4	13.7	15.2	15.7	11	3.03
BANC ONE	2215.7**	13	4395.2	13	307.5	–7	610.0	–7	13.9	16.8	12.6	14	2.35
BOATMEN'S BANCSHARES	750.2**	15	1471.0	15	108.7	6	194.5	–4	14.5	15.8	14.2	11	3.34
COMERICA	724.1	26	1408.3	29	101.5	2	201.6	6	14.0	17.2	15.9	10	3.37
FIFTH THIRD BANCORP	360.4**	26	700.0	24	68.5	16	134.6	15	19.0	20.7	17.7	14	4.05
FIRST BANK SYSTEM	713.2	13	1412.6	16	137.9	19	271.7	19	19.3	18.2	13.8	15	2.89
FIRST CHICAGO	1485.6	34	2923.3	38	187.4	11	382.5	6	12.6	15.3	16.5	8	7.26
FIRST OF AMERICA BANK	544.2**	19	1070.2	19	56.6	6	104.0	7	10.4	11.6	12.9	11	3.52
FIRSTAR	435.7**	19	846.1	18	53.8	9	90.1	–18	12.3	13.6	13.9	12	2.94
HUNTINGTON BANCSHARES	420.0**	18	821.7	15	58.2	–14	113.0	–16	13.8	18.9	15.0	15	1.57
KEYCORP	1486.4**	14	2911.3	15	199.0	–10	372.9	–13	13.4	17.1	16.7	10	3.25
MARSHALL & ILSLEY	333.0**	18	652.4	15	46.2	NM	92.4	NM	13.9	NM	16.3	12	1.88
MERCANTILE BANCORPORATION	341.8**	16	678.4	16	52.4	13	102.1	11	15.3	15.8	15.8	12	3.90
NATIONAL CITY	850.2**	20	1646.5	19	112.5	6	223.6	7	13.2	15.0	17.2	10	2.86
NBD BANCORP	1032.9	26	2025.3	28	143.4	6	284.3	10	13.9	16.4	16.4	9	3.63
NORTHERN TRUST	439.6**	16	862.4	21	53.1	9	102.4	9	12.1	12.9	15.5	12	3.27
NORWEST	1840.9	26	3525.0	22	234.3	16	451.1	15	12.7	13.8	21.4	11	2.59
OLD KENT FINANCIAL	274.9**	21	534.8	23	37.4	1	72.1	3	13.6	16.3	15.1	10	3.39
(C) BANKS - SOUTH & SOUTHEAST													
GROUP COMPOSITE	8766.9	23	17092.9	25	1197.1	9	2329.0	9	13.7	15.4	15.2	10	4.64
AMSOUTH BANCORPORATION	393.2**	38	760.7	38	40.9	–5	81.0	–1	10.4	15.1	9.5	16	2.16
CRESTAR FINANCIAL	298.6	13	588.0	14	47.4	11	93.0	12	15.9	16.1	14.6	11	4.72
FIRST UNION	1670.2	24	3228.2	24	249.1	9	486.0	8	14.9	17.1	16.4	9	5.39
NATIONSBANK	4032.0**	27	7751.0	27	467.0	7	910.0	7	11.6	13.7	15.4	9	6.33
REGIONS FINANCIAL	289.9**	30	568.0	29	40.9	12	82.2	15	14.1	16.4	14.5	11	3.56
SOUTHTRUST	413.4**	35	800.9	35	48.0	13	94.9	14	11.6	13.8	15.6	11	2.26
SUNTRUST BANKS	919.5	17	1809.4	18	140.9	7	276.9	7	15.3	16.8	13.5	13	4.64
WACHOVIA	750.1	5	1586.7	15	162.9	21	305.1	18	21.7	18.9	17.2	11	3.40
(D) BANKS - WEST & SOUTHWEST													
GROUP COMPOSITE	8822.9	23	17194.2	23	1283.7	20	2514.4	25	14.6	15.0	15.9	10	6.04
BANCORP HAWAII	252.6	10	499.6	10	28.5	–16	56.8	–17	11.3	14.9	10.6	12	2.51
BANKAMERICA	4806.0	32	9312.0	30	645.0	23	1256.0	21	13.4	14.4	13.3	9	5.80
FIRST INTERSTATE BANCORP	1219.4**	17	2409.3	19	219.9	6	431.9	10	18.0	20.0	22.1	9	9.51
FIRST SECURITY	297.3**	25	588.8	31	36.2	3	71.8	5	12.2	14.8	15.2	10	2.84
U. S. BANCORP	524.5**	11	1033.3	12	70.0	36	136.5	497	13.3	10.8	15.0	10	2.56
UNION BANK	382.1**	27	744.2	25	52.0	309	96.3	363	13.6	4.2	12.2	11	3.87
WELLS FARGO	1341.0**	9	2607.0	7	232.0	13	465.0	14	17.3	16.7	25.6	11	16.74
4 CHEMICALS													
INDUSTRY COMPOSITE	40131.3	17	77685.5	20	3561.2	58	7069.5	75	8.9	6.6	23.2	14	3.44
AIR PRODUCTS & CHEMICALS (3)	982.4	13	1965.3	14	100.1	52	188.7	138	10.2	7.6	15.5	18	3.15
ALBEMARLE	319.7	18	633.0	24	12.5	–19	27.1	4	3.9	5.7	9.0	21	0.79
ARCO CHEMICAL	1149.0	39	2290.0	45	150.0	121	276.0	144	13.1	8.3	24.5	11	4.49
CABOT (3)	494.8	15	976.1	13	47.0	114	93.4	111	9.5	5.1	22.0	15	3.66
CROMPTON & KNOWLES	175.6	14	343.8	19	12.1	–25	25.3	–13	6.9	10.4	19.7	15	0.96
CYTEC INDUSTRIES	333.1	20	643.8	20	22.6	69	44.7	107	6.8	4.8	60.5	10	4.80
DEXTER	283.0	15	549.8	14	12.0	9	22.4	11	4.2	4.4	10.9	14	1.65
DOW CHEMICAL	5517.0	34	10722.0	35	335.0	62	901.0	157	6.1	5.0	16.7	15	5.10

ORPORATE SCOREBOARD

COMPANY	SALES 2ND QUARTER 1995 $ MIL	SALES CHANGE FROM 1994 %	SALES 6 MONTHS 1995 $ MIL	SALES CHANGE FROM 1994 %	PROFITS 2ND QUARTER 1995 $ MIL	PROFITS CHANGE FROM 1994 %	PROFITS 6 MONTHS 1995 $ MIL	PROFITS CHANGE FROM 1994 %	MARGINS 2ND QUARTER 1995 %	MARGINS 2ND QUARTER 1994 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 6-30	PRICE-EARNINGS RATIO 7-21	12 MONTHS' EARNINGS PER SHARE
UPONT	11076.0***	9	21578.0	12	938.0	18	1897.0	32	8.5	7.8	25.3	14	4.97
ASTMAN CHEMICAL	1321.0	26	2553.0	26	158.0	90	290.0	109	12.0	7.9	34.7	11	5.85
NGELHARD	721.1**	14	1415.6	19	36.7	15	64.3	18	5.1	5.0	19.2	33	0.89
THYL	224.5	–19	458.8	–31	13.0	–57	34.5	–32	5.8	11.0	20.2	16	0.69
ERRO	334.0	11	677.0	16	14.7	23	27.8	19	4.4	4.0	14.5	16	1.71
IRST MISSISSIPPI (6)	165.6	11	341.9	23	10.2	14	29.8	116	6.1	6.0	24.8	13	2.80
ULLER (H. B.) (1)	322.4	18	618.1	20	10.1	8	16.1	21	3.1	3.4	11.8	14	2.40
EON	357.6	26	693.8	27	–8.0	NM	13.4	–32	NM	4.5	20.6	15	1.87
EORGIA GULF	275.8	33	589.9	47	50.8	155	111.0	239	18.4	9.6	NM	7	4.84
OODRICH (B. F.)	600.6	11	1194.6	15	44.3	139	61.9	165	7.4	3.4	11.8	15	3.72
RACE (W. R.)	936.8	19	1794.5	20	48.1	NM	74.3	NM	5.1	NM	17.8	23	2.69
REAT LAKES CHEMICAL	640.9	22	1209.9	24	78.5	16	146.8	9	12.2	12.9	22.2	15	4.32
ANNA (M. A.)	483.3	14	976.1	20	19.4	107	31.4	101	4.0	2.2	10.9	16	1.71
ERCULES	614.3	–13	1307.4	–6	79.1	22	168.5	44	12.9	9.2	27.0	18	2.78
NTL. FLAVORS & FRAGRANCES	394.3	14	767.9	15	75.7	17	145.7	18	19.2	18.8	22.6	23	2.23
NTERNATIONAL SPECIALTY PRODUCTS	182.6	17	362.5	20	18.6	25	33.7	34	10.2	9.5	9.0	17	0.54
OCTITE	201.2	13	398.0	18	24.1	19	48.8	27	12.0	11.4	20.6	17	2.62
UBRIZOL	438.5	7	855.2	6	61.3	25	110.4	19	14.0	12.0	22.3	12	2.98
YONDELL PETROCHEMICAL	1370.0	52	2544.0	48	135.0	322	262.0	385	9.9	3.6	149.1	5	5.38
IONSANTO	2482.0	9	4800.0	12	290.0	12	519.0	15	11.7	11.4	19.6	15	6.03
L INDUSTRIES	283.4	20	534.3	22	20.9	NM	34.0	NM	7.4	NM	NM	27	0.62
LIN	803.7	14	1569.8	20	43.6	58	82.0	91	5.4	3.9	15.1	11	5.13
RAXAIR	788.0	22	1544.0	23	67.0	22	132.0	36	8.5	8.5	27.1	16	1.68
EXENE	159.5	28	329.0	35	20.5	NM	43.4	NM	12.9	0.9	66.2	3	3.99
OHM & HAAS	1042.0**	10	2027.0	13	87.0	–8	166.0	2	8.4	10.1	16.8	15	3.85
CHULMAN (A.) (4)	284.5	40	534.2	44	15.2	26	28.3	35	5.4	5.9	14.5	19	1.48
COTTS (3)	229.0	14	465.1	14	10.5	12	25.4	13	4.6	4.7	13.8	17	1.25
TERLING CHEMICALS (3)	298.5	46	602.5	68	59.8	979	115.9	NM	20.0	2.7	93.9	4	2.75
ERRA INDUSTRIES	1003.7**	23	1447.0	34	85.1	78	118.0	184	8.5	5.9	29.5	8	1.64
NION CARBIDE	1541.0	31	2994.0	30	228.0	212	458.0	237	14.8	6.2	45.5	8	4.78
IGORO	420.3	1	619.9	14	42.0	21	56.4	36	10.0	8.3	47.6	13	3.34
VELLMAN	293.9	28	570.0	26	21.6	34	44.3	62	7.4	7.0	13.5	11	2.44
ITCO	586.7	4	1189.1	6	71.4	120	101.1	86	12.2	5.7	15.6	12	2.73
S CONGLOMERATES													
NDUSTRY COMPOSITE	**48300.4**	**13**	**92341.9**	**13**	**3528.1**	**33**	**6175.5**	**30**	**7.3**	**6.2**	**21.7**	**15**	**3.50**
LCO STANDARD (3)	2595.9**	30	5041.7	27	58.9	NM	108.0	NM	2.3	NM	15.5	23	3.42
LLIEDSIGNAL	3630.0	14	7049.0	14	227.0	16	425.0	16	6.3	6.2	25.6	16	2.90
IAL	901.9	–3	1760.1	3	47.5	9	69.0	14	5.3	4.7	25.2	13	1.69
OXMEYER HEALTH (9)	1278.2	9	2641.8	4	7.5	41	22.5	3	0.6	0.5	8.1	12	1.61
ENERAL ELECTRIC	17809.0**	20	32935.0	19	1726.0	11	3098.0	12	9.7	10.4	22.9	16	3.67
ENERAL HOST (11)	202.0	9	371.9	6	11.0	17	20.6	NM	5.5	5.1	7.9	14	0.44
ARCOURT GENERAL (2)	774.5**	5	1437.8	5	12.7	87	26.3	39	1.6	0.9	13.9	30	1.44
TT	6948.0	16	13486.0	20	612.0	171	840.0	111	8.8	3.8	19.6	10	11.53
ALL (5)	217.3	22	410.2	18	33.5	20	60.0	20	15.4	15.6	17.3	24	0.97
ITTWAY	235.3	24	455.7	25	10.7	14	19.5	–29	4.6	5.0	11.0	17	2.66
REMARK INTERNATIONAL	889.9	8	1739.6	8	67.1	18	113.6	20	7.5	6.9	27.9	14	3.74
OCKWELL INTERNATIONAL (3)	3452.0	20	6813.0	21	197.0	19	388.4	22	5.7	5.7	20.5	14	3.29
ELEDYNE	706.7	19	1332.2	14	32.6	196	96.9	NM	4.6	1.8	40.3	10	2.39
ENNECO	2198.0	–33	4361.0	–31	185.0	15	338.0	20	8.4	4.9	23.4	13	3.84
EXTRON	2502.0	–1	4889.0	–1	121.0	10	230.0	10	4.8	4.4	15.3	12	5.14
RW	2711.6	17	5307.9	19	123.1	42	237.8	58	4.5	3.7	21.4	12	6.33
ALHI†	513.5	144	981.1	145	17.4	335	29.8	613	3.4	1.9	20.8	20	0.39
VHITMAN	734.7	9	1329.1	9	38.0	6	52.0	14	5.2	5.3	21.1	18	1.06
S CONSUMER PRODUCTS													
NDUSTRY COMPOSITE	**64940.0**	**8**	**126229.6**	**9**	**4393.5**	**3**	**8464.3**	**8**	**6.8**	**7.1**	**24.2**	**18**	**2.69**
A) APPAREL													
ROUP COMPOSITE	**6374.3**	**13**	**12278.9**	**12**	**200.5**	**–3**	**435.7**	**13**	**3.1**	**3.7**	**12.4**	**19**	**1.93**
ROWN GROUP (11)	357.4	–3	689.7	–1	–4.4	NM	–0.6	NM	NM	2.0	9.1	20	1.24
RUIT OF THE LOOM	724.8	14	1253.0	17	39.7	3	56.2	–12	5.5	6.1	4.4	32	0.69
ELLWOOD (8)	396.3	27	687.8	22	–8.7	NM	–10.7	NM	NM	3.7	3.6	36	0.53
IZ CLAIBORNE	474.8	–3	1001.9	–3	17.0	7	45.1	4	3.6	3.2	8.6	21	1.11
IKE (7)	1412.0	41	2536.7	35	113.4	64	208.7	58	8.0	6.9	20.8	16	5.44
HILLIPS-VAN HEUSEN (11)	283.0	18	636.4	16	–3.4	NM	6.6	–32	NM	NM	11.2	15	1.11
EEBOK INTERNATIONAL	788.7	2	1724.2	6	21.4	–58	87.3	–25	2.7	6.6	21.5	13	2.72
USSELL	268.7	10	517.0	9	12.5	–2	24.7	–5	4.6	5.2	12.4	14	1.94
F	1271.9	7	2459.5	7	65.2	11	123.2	10	5.1	5.0	16.1	13	4.39
VESTPOINT STEVENS	396.5	6	772.7	6	–52.2	NM	–104.8	NM	NM	NM	NM	NM	–5.93
B) APPLIANCES & HOME FURNISHINGS													
ROUP COMPOSITE	**9915.1**	**12**	**21036.3**	**16**	**96.1**	**–70**	**477.6**	**–26**	**1.0**	**3.6**	**11.5**	**20**	**1.34**
RMSTRONG WORLD INDUSTRIES	731.4	6	1431.0	7	52.7	–1	87.1	–14	7.2	7.7	24.0	11	4.84
EST BUY (10)	1274.7	50	3221.8	58	4.7	10	32.8	28	0.4	0.5	15.1	20	1.35
IRCUIT CITY STORES (10)	1391.7	33	3301.9	34	24.6	25	108.3	24	1.8	1.9	19.1	19	1.77
RETTER (11)	166.4	–9	433.7	–7	–3.8	NM	7.9	NM	NM	NM	11.5	5	0.33

CORPORATE SCOREBOARD

COMPANY	SALES 2ND QUARTER 1995 $ MIL	CHANGE FROM 1994 %	6 MONTHS 1995 $ MIL.	CHANGE FROM 1994 %	PROFITS 2ND QUARTER 1995 $ MIL.	CHANGE FROM 1994 %	6 MONTHS 1995 $ MIL.	CHANGE FROM 1994 %	MARGINS 2ND QUARTER 1995 %	MARGINS 2ND QUARTER 1994 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 6-30	PRICE-EARNINGS RATIO 7-21	12 MONTHS' EARNINGS PER SHARE
GOOD GUYS (3)	198.3	21	394.1	20	2.2	16	13.1	179	1.1	1.2	11.4	12	1.12
HEILIG-MEYERS (10)	319.0**	19	618.1	21	18.5	1	33.4	3	5.8	6.8	13.2	19	1.35
INTERCO	250.3	-8	536.2	-1	5.5	-6	13.2	12	2.2	2.2	10.4	10	0.57
LA-Z-BOY CHAIR (8)	234.5	-3	445.3	3	12.7	3	20.0	-2	5.4	5.1	11.2	14	2.01
MAYTAG	803.5	-8	1623.6	-2	-101.1	NM	-61.6	NM	NM	4.7	2.6	NM	0.16
PIER 1 IMPORTS 10)	176.8	10	376.2	10	6.2	13	16.7	NM	3 5	3.4	11.4	15	0.64
SUN TV & APPLIANCES (10)	164.5	24	423.2	26	0.2	-92	6.7	-30	0.1	1.9	10.4	8	0.87
SUNBEAM	308.8	-7	648.3	0	11.4	-61	41.4	-28	3.7	8.9	15.4	14	1.10
TANDY	1185.0**	17	2411.7	21	38.0	10	76.9	1	3.2	3.4	12.3	18	3.05
TORO (5)	310.6	12	524.6	13	17.5	12	24.3	21	5.6	5.7	18.1	10	2.79
WHIRLPOOL	2115.0	3	4100.0	5	52.0	-38	127.0	-16	2.5	4.1	7.2	31	1.80
ZENITH ELECTRONICS	284.6	-5	546.7	-8	-45.3	NM	-69.6	NM	NM	NM	-29.8	NM	-1.36
(C) BEVERAGES													
GROUP COMPOSITE	**18574.7**	**10**	**33977.6**	**10**	**1827.9**	**12**	**3055.9**	**14**	**9.8**	**9.7**	**31.2**	**23**	**2.32**
ANHEUSER-BUSCH	3292.1	4	6048.6	4	329.1	2	545.2	3	10.0	10.2	23.2	14	4.05
BROWN-FORMAN (8)	403.7	5	834.8	6	33.8	11	71.5	3	8.4	7.9	27.7	16	2.15
CANANDAIGUA WINE (4)	222.8	44	433.7	47	10.6	60	20.6	66	4.8	4.3	7.5	34	1.25
COCA-COLA	4936.0	14	8790.0	14	898.0	18	1536.0	20	18.2	17.5	54.8	30	2.20
COCA-COLA BOTTLING CONSOLIDATED	207.9	4	378.9	4	8.1	20	10.0	22	3.9	3.3	47.4	20	1.72
COCA-COLA ENTERPRISES	1827.0	13	3289.0	12	46.0	21	49.0	53	2.5	2.4	6.2	33	0.65
COORS (ADOLPH)	399.5	-8	726.1	-3	15.2	-37	15.3	-50	3.8	5.5	6.3	16	1.11
PEPSICO	7285.8	11	13476.6	10	487.2	9	808.3	11	6.7	6.8	27.5	19	2.33
(D) PERSONAL CARE													
GROUP COMPOSITE	**5931.0**	**10**	**11636.4**	**11**	**477.0**	**8**	**926.4**	**9**	**8.0**	**8.2**	**34.1**	**21**	**2.34**
AVON PRODUCTS	1064.0	6	2040.2	8	80.4	11	114.8	11	7.6	7.2	177.6	17	3.99
COLGATE-PALMOLIVE	2090.7	11	4071.0	11	143.2	1	299.7	3	6.9	7.5	30.5	17	3.91
ECOLAB	333.4	11	643.0	12	25.8	9	44.2	10	7.8	7.9	18.4	20	1.30
GILLETTE	1601.0	14	3137.0	13	193.1	19	389.2	19	12.1	11.5	36.1	25	1.71
HELENE CURTIS INDUSTRIES (10)	270.9	2	635.9	5	0.2	-87	8.0	1	0.1	0.5	8.1	15	1.89
NCH (8)	185.2	5	371.7	7	10.0	16	17.1	19	5.4	4.9	11.3	13	4.29
STANHOME	209.5	11	394.4	9	11.2	-4	17.6	-11	5.3	6.2	16.0	14	2.19
TAMBRANDS	176.3	6	343.3	13	13.0	-35	35.9	-15	7.4	12.1	90.5	20	2.28
(E) TOBACCO													
GROUP COMPOSITE	**24144.9**	**3**	**47300.5**	**3**	**1792.0**	**7**	**3568.8**	**10**	**7.4**	**7.1**	**24.8**	**12**	**4.38**
AMERICAN BRANDS	2594.7*	-15	5387.2	-11	119.1	-22	235.7	-16	4.6	5.0	19.7	9	4.22
PHILIP MORRIS	17129.0**	4	33646.0	5	1410.0	14	2773.0	15	8.2	7.5	38.0	13	5.97
RJR NABISCO HOLDINGS	4081.0	8	7621.0	4	153.0	-20	351.0	-9	3.8	5.1	6.1	15	1.84
UST	340.2*	10	646.3	9	109.9	10	209.1	11	32.3	32.1	108.8	14	2.01
7 CONTAINERS & PACKAGING													
INDUSTRY COMPOSITE	**10342.5**	**27**	**19675.7**	**26**	**645.6**	**228**	**1121.5**	**362**	**6.2**	**2.4**	**18.1**	**16**	**1.63**
(A) GLASS, METAL & PLASTIC													
GROUP COMPOSITE	**3292.0**	**14**	**6101.9**	**14**	**137.1**	**-1**	**228.3**	**6**	**4.2**	**4.8**	**12.4**	**23**	**1.24**
BALL	755.2	12	1360.8	8	21.9	27	38.2	38	2.9	2.5	13.0	14	2.69
CROWN CORK & SEAL	1385.8	22	2512.5	21	52.2	-19	88.7	-10	3.8	5.7	8.6	34	1.36
OWENS-ILLINOIS	985.0	8	1908.6	9	59.0	15	92.3	16	6.0	5.6	23.6	19	0.75
U. S. CAN	166.0	9	320.0	15	4.0	-30	9.1	-4	2.4	3.7	21.1	10	1.54
(B) PAPER													
GROUP COMPOSITE	**7050.5**	**33**	**13573.8**	**32**	**508.6**	**779**	**893.2**	**NM**	**7.2**	**1.1**	**20.5**	**14**	**1.77**
ACX TECHNOLOGIES	242.0	40	469.0	40	9.9	111	18.6	129	4.1	2.7	6.6	19	2.25
BEMIS	383.2	13	751.7	14	21.1	13	37.2	15	5.5	5.5	17.3	18	1.50
FEDERAL PAPER BOARD	463.4	33	899.2	35	58.0	383	104.9	NM	12.5	3.4	17.7	10	3.80
GAYLORD CONTAINER (3)	285.2	40	541.5	40	39.8	NM	67.3	NM	14.0	NM	357.4	11	1.09
GREIF BROS. (2)	184.9	32	354.9	32	14.9	134	30.3	177	8.1	4.5	15.3	11	2.10
JEFFERSON SMURFIT	1103.3	44	2104.4	41	66.3	NM	105.6	NM	6.0	NM	NM	12	1.24
LONGVIEW FIBRE (2)	234.2	24	461.7	30	22.5	61	39.1	148	9.6	7.4	13.2	16	1.09
RIVERWOOD INTERNATIONAL	366.3	17	679.4	17	17.1	55	28.0	106	4.7	3.5	4.7	61	0.38
ROCK-TENN (3)	243.8	34	468.5	32	10.9	3	21.7	6	4.5	5.8	13.8	13	1.32
SONOCO PRODUCTS	691.7	23	1336.9	21	44.1	34	81.7	34	6.4	5.8	21.0	16	1.55
STONE CONTAINER	1963.5	45	3782.8	43	131.0	NM	227.8	NM	6.7	NM	31.8	9	2.38
TEMPLE-INLAND	889.0	23	1723.7	20	72.9	174	131.2	165	8.2	3.7	11.6	14	3.80
8 DISCOUNT & FASHION RETAILING													
INDUSTRY COMPOSITE	**91947.6**	**11**	**204981.5**	**11**	**1478.6**	**-19**	**6057.3**	**20**	**1.6**	**2.2**	**12.5**	**20**	**1.38**
AMES DEPARTMENT STORES (11)	441.7**	1	1146.2	4	-11.1	NM	19.5	-27	NM	NM	28.5	3	0.97
ANNTAYLOR STORES (11)	168.3**	16	357.3	28	3.5	-57	11.8	6	2.1	5.5	8.5	17	1.19
AUTOZONE (4)	425.5	19	789.5	19	32.4	15	56.3	14	7.6	7.9	20.7	29	0.86
BAKER (J.) (11)	231.4	5	534.7	9	0.6	-80	7.3	-34	0.3	1.4	9.4	7	1.54
BARNES & NOBLE (11)	402.0	26	994.8	24	-5.3	NM	33.9	67	NM	NM	7.6	40	0.84
BEST PRODUCTS (11)	272.8	NA	875.2	NA	-8.1	NA	21.8	NA	NM	NA	NA	NA	NA
BRADLEES (11)	486.3	5	1122.1	6	-30.8	NM	-17.7	NM	NM	NM	-10.2	NM	-1.45
BROADWAY STORES (11)	448.5**	-1	1196.5	1	-43.3	NM	-31.4	NM	NM	NM	-18.3	NM	-1.34
CALDOR (11)	564.3	5	1502.3	8	-9.2	NM	29.9	-11	NM	NM	12.2	7	2.34

ORPORATE SCOREBOARD

OMPANY	SALES 2ND QUARTER 1995 $ MIL	CHANGE FROM 1994 %	SALES 6 MONTHS 1995 $ MIL	CHANGE FROM 1994 %	PROFITS 2ND QUARTER 1995 $ MIL	CHANGE FROM 1994 %	PROFITS 6 MONTHS 1995 $ MIL	CHANGE FROM 1994 %	MARGINS 2ND QUARTER 1995 %	MARGINS 2ND QUARTER 1994 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 6-30	PRICE-EARNINGS RATIO 7-21	12 MONTHS' EARNINGS PER SHARE
ARSON PIRIE SCOTT (11)	249.4**	–3	642.3	0	34.4	NM	74.3	148	13.8	1.1	30.9	4	4.18
HARMING SHOPPES (11)	244.3	–18	589.7	10	–4.4	NM	0.8	–98	NM	4.7	4.8	20	0.25
ONSOLIDATED STORES (11)	291.8	20	745.2	26	3.0	26	41.0	34	1.0	1.0	17.2	19	1.16
ORPORATE EXPRESS (10)	225.1	60	400.2	113	3.2	542	6.0	NM	1.4	0.3	3.0	NM	0.17
AYTON HUDSON (11)	4757.0**	7	11755.0	9	11.0	–72	290.0	–9	0.2	0.9	12.8	14	5.39
ILLARD DEPARTMENT STORES (11)	1374.3**	3	3162.6	5	48.4	0	167.3	5	3.5	3.6	10.6	14	2.23
OLLAR GENERAL (11)	343.4	20	828.2	24	11.6	22	44.4	41	3.4	3.3	22.2	28	1.09
DISON BROTHERS STORES (11)	318.1	–3	763.2	–2	–6.4	NM	10.8	–8	NM	0.6	3.2	20	0.54
ABRI-CENTERS OF AMERICA (11)	183.3	38	439.6	40	0.3	NM	14.4	55	0.2	NM	8.2	16	1.41
AMILY DOLLAR STORES (4)	379.8	9	800.8	7	16.4	–7	33.4	–16	4.3	5.0	14.0	17	1.00
EDERATED DEPARTMENT STORES (11)	2988.0**	81	6127.3	53	–57.0	NM	50.3	–72	NM	1.9	2.7	36	0.78
NGERHUT	474.4	6	883.4	9	5.8	–64	12.0	–54	1.2	3.6	6.3	24	0.65
AP (11)	848.7	13	2058.5	14	50.1	–21	168.9	–2	5.9	8.4	22.2	17	2.11
ROSSMAN'S	193.7	–12	320.4	–10	1.1	–84	–9.6	NM	0.5	2.9	–14.4	NM	–0.39
ECHINGER (11)	553.2	–4	1085.7	3	1.2	–75	–38.0	NM	0.2	0.8	–2.8	NM	–0.31
ILLS STORES (11)	362.9	–1	1036.4	4	–4.3	NM	29.1	–2	NM	NM	14.6	7	2.58
OME DEPOT (11)	3569.0	24	6646.4	29	157.8	13	303.7	20	4.4	4.9	14.1	31	1.36
OME SHOPPING NETWORK	246.7	–10	490.3	11	–9.7	NM	–18.5	NM	NM	0.7	–5.4	NM	–0.11
MART (11)	7856.0**	8	18383.0	0	–28.0	NM	101.0	NM	NM	0.2	3.1	35	0.45
OHL'S (11)	368.4	20	932.7	22	11.8	4	45.7	16	3.2	3.7	19.9	26	1.89
NDS' END (11)	207.1	11	586.2	10	1.3	–73	25.3	–20	0.6	2.6	17.3	16	0.94
MITED (11)	1588.1**	7	4126.7	6	39.2	–17	296.0	22	2.5	3.2	15.9	18	1.23
OWE'S (11)	1634.7	17	3122.2	23	58.9	14	105.2	36	3.6	3.7	15.5	23	1.47
AY DEPARTMENT STORES (11)	2787.0**	6	6737.0	6	114.0	2	515.0	8	4.1	4.3	18.3	14	3.07
ELVILLE	2770.2	10	5262.2	8	31.1	–32	4.6	–89	1.1	1.8	11.1	15	2.38
ERCANTILE STORES (11)	602.9**	2	1531.4	3	10.0	11	69.5	7	1.7	1.5	7.6	16	2.87
EYER (FRED) (11)	936.7	0	1768.7	2	3.1	81	11.7	–75	0.3	1.7	–1.1	NM	–0.20
ICHAELS STORES (11)	265.5	66	643.0	63	7.6	52	29.7	57	2.8	3.1	10.5	13	1.76
ICRO WAREHOUSE	289.2	73	566.7	75	10.1	60	20.0	66	3.5	3.8	14.4	41	1.21
EIMAN MARCUS GROUP (5)	415.7**	4	947.9	8	11.1	–16	37.9	–15	2.7	3.3	110.1	21	0.71
ORDSTROM (11)	815.6**	7	2006.6	7	27.7	–13	97.6	5	3.4	4.2	14.6	18	2.42
FFICE DEPOT	1200.4	30	2551.6	30	27.4	32	59.9	32	2.3	2.3	15.9	36	0.78
FFICEMAX (11)	557.9	33	1126.3	33	8.0	89	24.4	38	1.4	1.0	4.5	46	0.45
AYLESS CASHWAYS (1)	711.7	–3	1267.9	–1	4.6	–73	0.8	–95	0.6	2.3	7.9	9	0.77
ENNEY (J. C.) (11)	4735.0	1	11728.0	4	156.0	–30	584.0	–12	3.3	4.8	17.8	12	4.04
EP BOYS–MANNY, MOE & JACK (11)	361.2	7	696.9	10	16.2	–8	34.5	4	4.5	5.2	13.2	22	1.30
ETSMART (11)	178.1	38	365.9	46	4.1	NM	9.6	NM	2.3	NM	6.2	94	0.29
RICE/COSTCO (4)	3896.2**	8	8203.6	6	32.6	11	97.4	9	0.8	0.8	14.0	19	0.97
ROFFIT'S (11)	164.0**	85	392.8	133	2.8	601	14.8	690	1.7	0.5	10.9	19	1.65
OSS STORES (11)	297.4	13	688.5	13	3.9	–12	16.3	–5	1.3	1.7	14.0	8	1.48
EARS, ROEBUCK	8204.0	5	15653.0	5	218.0	14	342.0	11	2.7	2.4	10.9	10	3.20
ERVICE MERCHANDISE	864.9	2	1602.0	2	0.8	NM	–22.2	NM	0.1	NM	17.1	12	0.53
HOPKO STORES (10)	560.5	9	1046.3	7	5.4	8	24.1	59	1.0	1.0	9.6	11	1.20
PIEGEL	699.3	4	1378.9	6	–14.9	NM	–24.3	NM	NM	1.0	–2.2	NM	–0.10
PORTS AUTHORITY (11)	222.2	28	492.0	31	1.7	27	12.5	28	0.8	0.8	6.7	29	0.84
TAPLES (11)	668.8	68	1333.5	73	7.9	140	29.3	247	1.2	0.8	11.1	44	0.46
TRAWBRIDGE & CLOTHIER (11)	198.6**	–5	544.4	–1	–6.1	NM	14.2	–37	NM	NM	5.9	14	1.42
ALBOTS (11)	230.6	13	494.9	17	21.6	16	30.6	27	9.4	9.1	14.5	24	1.65
X (11)	911.6	7	2024.1	7	8.1	–58	19.7	–61	0.9	2.3	13.0	17	0.86
OYS 'R' US (11)	1493.0	2	5693.2	6	18.4	–51	427.2	4	1.2	2.6	15.1	16	1.83
ALUE CITY DEPARTMENT STORES (5)	187.3	0	467.5	1	–3.2	NM	12.7	–42	NM	1.9	10.8	11	0.79
ENTURE STORES (11)	440.9**	6	1140.2	7	–3.2	NM	21.1	–33	NM	0.3	8.2	5	1.27
ABAN (11)	884.5	8	1856.5	9	8.3	–9	29.6	NM	0.9	1.1	12.9	8	1.92
AL-MART STORES (11)	20440.0	16	44887.8	18	553.0	11	1582.6	16	2.7	2.8	20.9	23	1.20
ICKES LUMBER	272.8	5	464.5	14	2.5	–66	–2.1	NM	0.9	2.8	104.6	3	4.46
OOLWORTH (11)	1794.0**	2	4354.0	–5	-80.0	NM	10.0	NM	NM	NM	0.4	NM	0.05
ALE (5)	192.1	15	619.3	16	–4.0	NM	37.8	14	NM	NM	NA	NA	NA
) ELECTRICAL & ELECTRONICS													
NDUSTRY COMPOSITE	38482.6	19	73318.6	18	3399.8	27	6501.1	32	8.8	8.3	18.4	20	2.53
A) ELECTRICAL PRODUCTS													
ROUP COMPOSITE	5714.7	9	10900.0	11	247.7	2	429.0	4	4.3	4.6	8.5	30	0.82
METEK	219.1	8	430.6	9	11.9	27	22.1	24	5.4	4.6	63.4	15	1.24
OOPER INDUSTRIES	1268.1**	8	2391.3	8	82.8	4	138.1	5	6.5	6.8	13.1	16	2.37
ENERAL SIGNAL	421.4	11	832.4	15	23.4	–8	50.7	7	5.6	6.7	18.9	18	2.27
UBBELL	295.0	13	573.4	22	30.1	14	58.5	15	10.2	10.1	18.3	17	3.44
ATIONAL SERVICE INDUSTRIES (4)	505.8	5	971.6	6	25.6	12	43.2	10	5.1	4.8	12.2	16	1.81
AYCHEM (6)	411.2	5	779.9	4	–4.0	NM	6.9	NM	NM	NM	–2.8	NM	–0.49
HOMAS & BETTS	298.1	14	600.7	18	18.8	47	35.5	54	6.3	4.9	2.6	93	0.72
ESTINGHOUSE ELECTRIC	2296.0	9	4320.0	12	59.0	21	74.0	–33	2.6	3.6	–0.6	NM	–0.03
B) ELECTRONICS													
ROUP COMPOSITE	17381.8	15	33125.9	13	1182.0	17	2233.1	23	6.8	6.7	16.6	20	2.94
NDREW (3)	161.3	19	317.6	14	18.4	67	32.6	61	11.4	8.1	20.5	38	1.56
NTEC	165.3	16	324.2	15	1.1	–80	5.5	–49	0.7	3.8	5.8	26	0.63
ENERAL INSTRUMENT	611.6	20	1220.4	30	54.1	4	111.1	6	8.8	10.2	34.4	18	2.06
UGHES ELECTRONICS	3708.5	5	7275.3	3	288.4	8	557.3	–4	7.8	7.6	12.8	16	2.64

CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS				
	2ND QUARTER 1985 $ MIL	CHANGE FROM 1984 %	6 MONTHS 1985 $ MIL	CHANGE FROM 1984 %	2ND QUARTER 1985 $ MIL	CHANGE FROM 1984 %	6 MONTHS 1985 $ MIL	CHANGE FROM 1984 %	2ND QUARTER 1985 %	2ND QUARTER 1984 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 6-30 %	PRICE-EARNINGS RATIO 7-31	12 MONTH EARNINGS PER SHARE
LITTON INDUSTRIES (5)	861.4	-10	1555.9	-12	35.6	18	64.2	20	4.1	3.2	9.5	26	1.41
LORAL (9)	1504.2	12	2963.6	7	69.3	26	165.5	19	4.6	4.1	17.9	15	3.53
MOTOROLA	6877.0	26	12888.0	27	481.0	31	853.0	28	7.0	6.7	17.5	26	2.93
RAYTHEON	2816.0	11	5203.0	7	195.5	2	369.4	85	6.9	7.6	18.9	13	6.07
TRACOR	217.5	29	428.8	25	6.8	64	13.1	63	3.1	2.5	24.4	15	1.04
VARIAN ASSOCIATES (3)	428.9	17	948.3	21	31.7	42	61.4	51	6.9	6.7	22.0	17	3.08
(C) INSTRUMENTS													
GROUP COMPOSITE	**2862.5**	**15**	**5398.9**	**13**	**145.1**	**15**	**297.1**	**27**	**5.1**	**5.1**	**16.1**	**20**	**2.25**
BECKMAN INSTRUMENTS	280.6	4	555.6	4	13.8	6	24.1	6	6.0	5.9	14.1	16	1.71
HONEYWELL	1655.6	13	3134.3	11	68.9	21	123.6	18	4.2	3.9	15.5	18	2.32
PERKIN-ELMER (6)	280.6	8	555.2	6	-1.8	NM	34.9	-9	NM	6.9	21.9	21	1.57
TEKTRONIX (7)	439.5	16	804.4	13	25.5	6	47.0	19	5.8	6.3	13.5	18	2.63
TERADYNE	256.1	64	469.4	52	38.8	165	67.5	140	15.1	9.4	18.7	26	2.91
(D) SEMICONDUCTORS & OTHER COMPONENTS													
GROUP COMPOSITE	**12523.6**	**33**	**23893.8**	**31**	**1825.1**	**40**	**3542.0**	**45**	**14.6**	**13.9**	**23.6**	**19**	**2.87**
ADVANCED MICRO DEVICES	626.2	17	1246.3	19	92.0	-1	188.8	6	14.7	17.5	16.0	11	3.06
AMP	1336.1	23	2631.8	27	97.5	1	202.8	15	7.3	8.9	14.8	23	1.86
AMPHENOL	207.6	20	405.6	23	16.1	51	30.3	71	7.7	6.1	18.5	22	1.17
ANALOG DEVICES (2)	230.0	20	438.1	17	28.7	61	52.4	58	12.5	9.3	16.2	29	1.19
CIRRUS LOGIC (9)	300.3	62	573.5	59	22.7	46	41.6	37	7.6	8.4	14.9	34	1.06
INTEL	3894.0	41	7451.0	37	879.0	37	1768.0	41	22.6	23.1	26.2	20	3.20
LSI LOGIC	307.1	45	587.2	45	55.7	138	101.0	136	18.2	11.1	21.1	33	1.39
MICRON TECHNOLOGY (4)	761.2	79	1389.7	70	220.2	111	403.7	111	28.9	24.5	43.6	17	3.32
NATIONAL SEMICONDUCTOR (7)	669.8	10	1241.2	8	81.2	-1	138.2	-5	12.1	13.5	18.0	14	2.02
READ-RITE (3)	253.1	49	494.9	60	32.3	192	57.3	768	12.8	6.5	20.9	19	1.96
SOLECTRON (4)	516.9	42	988.2	43	20.3	38	38.4	42	3.9	4.0	18.2	21	1.73
TEXAS INSTRUMENTS	3237.0	29	6099.0	23	278.0	51	508.0	60	8.6	7.3	24.8	16	9.21
VLSI TECHNOLOGY	184.4	25	347.4	21	1.3	-86	11.5	-21	0.7	6.3	10.7	37	0.74
10 FOOD													
INDUSTRY COMPOSITE	65350.8	4	123572.8	4	1960.7	25	3708.7	17	3.0	2.5	19.5	19	1.74
(A) FOOD DISTRIBUTION													
GROUP COMPOSITE	**8106.5**	**4**	**14913.3**	**6**	**76.0**	**-2**	**150.3**	**10**	**0.9**	**1.0**	**8.0**	**22**	**1.06**
INTERNATIONAL MULTIFOODS (10)	684.6	16	1252.1	15	4.6	51	16.3	NM	0.7	0.6	20.0	7	3.25
NASH FINCH	676.5**	1	1300.1	1	5.9	12	8.5	10	0.9	0.8	7.8	11	1.43
RICHFOOD HOLDINGS (8)	498.9	24	879.4	26	8.8	18	15.1	18	1.8	1.9	20.8	20	1.19
RYKOFF-SEXTON (8)	416.3	11	795.9	9	2.4	57	3.3	190	0.6	0.4	4.6	30	0.44
SMART & FINAL	273.4	26	525.6	26	3.1	-39	6.6	-14	1.2	2.4	13.1	22	0.79
SUPER FOOD SERVICES (4)	260.2**	3	517.7	1	1.7	-5	3.8	-1	0.7	0.7	6.6	15	0.81
SUPER RITE (10)	373.5	6	778.8	14	3.6	17	7.3	315	1.0	0.9	26.7	17	1.40
SUPERVALU (10)	4973.0	0	8863.8	2	46.0	-9	89.3	-14	0.9	1.0	3.3	52	0.56
(B) FOOD PROCESSING													
GROUP COMPOSITE	**26670.4**	**6**	**48301.5**	**6**	**1384.5**	**29**	**2441.1**	**14**	**5.2**	**4.3**	**19.8**	**20**	**2.21**
AMERICAN MAIZE-PRODUCTS	158.4	-2	299.4	0	11.9	94	19.1	182	7.5	3.8	16.0	10	3.80
CAMPBELL SOUP (5)	1744.0	11	3784.0	9	127.0	7	358.0	11	7.3	7.6	29.0	17	1.81
CHIQUITA BRANDS INTERNATIONAL	1086.1	8	2114.4	2	34.1	10	71.8	8	3.1	3.1	-10.9	NM	-1.03
CONAGRA	5816.8	-1	11574.4	1	150.4	14	268.9	14	2.6	2.2	19.6	18	2.06
CPC INTERNATIONAL	2040.1	10	3994.7	11	142.0	NM	253.1	204	7.0	NM	29.3	18	3.4
DEAN FOODS (7)	687.2	2	1353.1	5	25.9	7	43.1	1	3.8	3.6	13.7	14	2.01
DOLE FOOD	1152.0	17	2077.3	15	78.7	121	102.3	56	6.8	3.6	9.7	18	1.71
GENERAL MILLS (7)	1078.4	-4	2365.4	-4	-13.3	NM	10.0	-89	NM	NM	19.7	32	1.64
HEINZ (H.J.) (8)	2421.5	14	4375.3	20	158.5	23	296.7	15	6.5	6.6	25.3	18	2.38
HERSHEY FOODS	722.3	7	1589.7	2	33.3	32	94.0	20	4.6	3.7	13.7	25	2.30
HORMEL FOODS (2)	748.0	-2	1478.8	0	25.4	10	60.8	40	3.4	3.0	19.4	14	1.70
HUDSON FOODS (3)	305.7	15	577.5	12	9.4	6	17.6	33	3.1	3.3	12.4	11	1.24
INTERSTATE BAKERIES (7)	309.7	14	625.0	11	5.7	43	8.7	-93	1.8	1.5	10.6	16	1.1
KELLOGG	1780.1	10	3496.1	8	135.9	-10	331.9	1	7.6	9.4	37.9	22	3.1
McCORMICK (1)	449.0	12	870.4	14	16.0	-16	35.4	-5	3.6	4.8	12.4	30	0.74
NABISCO HOLDINGS	2057.0	9	3900.0	8	79.0	36	127.0	53	3.8	3.1	7.6	NA	NA
PILGRIM'S PRIDE (3)	230.3	-3	447.1	-3	6.1	-15	-10.2	NM	2.7	3.0	-1.4	NM	-0.08
PIONEER HI-BRED INTERNATIONAL (4)	1049.0	1	1326.0	3	272.0	4	281.0	2	25.9	25.1	27.9	17	1.5
RALCORP HOLDINGS (3)	231.6	6	489.8	1	5.1	47	27.0	-19	2.2	4.4	27.6	16	1.4
RALSTON PURINA GROUP (3)	1659.1	8	NA	NA	68.2	52	NA	NA	3.7	2.6	NA	NA	NA
SMITHFIELD FOODS (8)	381.6	8	798.5	7	3.2	-57	21.7	16	0.9	2.1	17.0	11	1.5
THORN APPLE VALLEY (7)	158.7	-11	322.3	-8	-4.5	NM	-5.0	NM	NM	2.0	5.3	21	0.9
UNIVERSAL FOODS (3)	207.5	-17	399.4	-18	14.6	-5	28.2	-6	7.0	6.1	19.7	12	2.70
(C) FOOD RETAILING													
GROUP COMPOSITE	**30573.8**	**2**	**60358.1**	**2**	**500.2**	**19**	**1117.3**	**24**	**1.6**	**1.4**	**21.9**	**18**	**1.23**
ALBERTSON'S (1)	3083.4	6	6152.5	3	99.3	11	248.5	15	3.2	2.9	24.6	15	1.70
AMERICAN STORES (1)	4362.1	-5	9008.8	-5	53.9	12	184.1	23	1.2	1.0	15.9	12	2.49
CASEY'S GENERAL STORES (8)	204.5***	15	403.9	15	3.2	34	8.9	39	1.6	1.3	13.0	22	0.8
EAGLE FOOD CENTERS (11)	245.5	-2	506.1	-3	-4.6	NM	-9.2	NM	NM	NM	-60.3	NM	-2.0
FOOD LION	1895.2	4	3761.5	4	38.7	11	76.4	16	2.0	1.9	15.5	17	1.3

ORPORATE SCOREBOARD

OMPANY	SALES 2ND QUARTER 1995 $ MIL.	CHANGE FROM 1994 %	SALES 6 MONTHS 1995 $ MIL.	CHANGE FROM 1994 %	PROFITS 2ND QUARTER 1995 $ MIL.	CHANGE FROM 1994 %	PROFITS 6 MONTHS 1995 $ MIL.	CHANGE FROM 1994 %	MARGINS 2ND QUARTER 1995 %	MARGINS 2ND QUARTER 1994 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 6-30	PRICE-EARNINGS RATIO 7-21	12 MONTHS' EARNINGS PER SHARE
NERAL NUTRITION (11)	192.0	30	419.2	29	15.1	44	30.3	46	7.9	7.1	23.1	28	1.26
ANT FOOD (10)	869.2	5	2074.0	4	22.1	8	62.6	10	2.5	2.5	12.5	20	1.62
EAT ATLANTIC & PACIFIC TEA (10)	3135.5	–3	5505.6	–1	14.6	101	20.3	NM	0.5	0.2	–20.6	NM	–4.17
NNAFORD BROTHERS	634.8**	18	1233.6	17	19.0	23	33.6	27	3.0	2.9	14.8	16	1.66
SH N' KARRY FOOD STORES (5)	269.9	–4	542.8	–3	2.7	NM	5.1	NM	1.0	NM	–23.8	NA	NA
OGER	5652.9	5	11117.8	4	82.5	18	146.9	17	1.5	1.3	NM	12	2.53
NN TRAFFIC (11)	860.0**	6	1719.5	4	0.1	–94	8.3	–16	0.0	0.3	60.0	13	1.79
ALITY FOOD CENTERS	175.5	38	314.5	27	5.3	–18	9.1	–24	3.0	5.1	13.1	18	1.26
DDICK (3)	525.8	8	1035.7	9	11.3	22	21.6	29	2.2	1.9	12.8	13	1.66
FEWAY	3753.4	4	7385.7	4	68.7	17	130.7	30	1.8	1.6	46.4	16	2.29
ITH'S FOOD & DRUG CENTERS	770.4	3	1517.1	1	9.0	–24	18.5	–13	1.2	1.6	9.6	11	1.74
OP & SHOP (11)	1192.5	5	2100.4	5	26.0	12	48.5	15	2.2	2.0	34.7	16	1.64
PERMARKETS GENERAL HOLDINGS (11)	1039.4	1	2136.1	0	0.6	NM	12.0	–41	0.1	NM	NA	NA	NA
LLAGE SUPER MARKET (5)	164.5	–4	336.3	–4	–0.3	NM	0.1	NM	NM	NM	0.0	NM	–0.01
NS	1139.5	–2	2282.0	–1	14.5	222	28.5	111	1.3	0.4	7.3	22	0.95
EIS MARKETS	407.6	11	805.1	9	18.4	3	37.4	6	4.5	4.8	10.3	15	1.81
1 FUEL													
DUSTRY COMPOSITE	**112227.0**	**14**	**218099.2**	**14**	**4804.0**	**89**	**9619.9**	**55**	**4.3**	**2.6**	**12.9**	**18**	**2.96**
) COAL, OIL & GAS													
ROUP COMPOSITE	**107465.1**	**14**	**208894.8**	**14**	**4514.3**	**90**	**9086.3**	**55**	**4.2**	**2.5**	**13.0**	**17**	**3.07**
MERADA HESS	1778.1**	19	3756.4	12	–40.2	NM	–15.0	NM	NM	0.0	–0.3	NM	–0.09
MOCO	7729.0***	–4	15293.0	3	533.0	30	1056.0	31	6.9	5.1	13.9	16	4.10
ACHE	206.1**	40	373.8	34	0.5	–96	4.6	–78	0.3	8.8	3.4	59	0.45
HLAND (3)	3011.0	22	5693.0	27	48.0	7	19.0	–76	1.6	1.8	6.8	22	1.58
LANTIC RICHFIELD	4423.0*	6	8667.0	9	391.0	NM	713.0	312	8.8	0.6	22.6	13	8.93
RLINGTON RESOURCES	211.2	–21	425.8	–21	2.2	–93	–2.6	NM	1.0	12.4	2.8	67	0.56
EVRON	9567.0***	8	18611.0	9	607.0	136	1066.0	65	6.3	2.9	14.2	15	3.24
ASTAL	2613.5	5	5231.8	1	57.2	33	114.8	–8	2.2	1.7	8.2	16	1.96
AMOND SHAMROCK	789.7	22	1466.4	19	28.0	2	33.4	–16	3.5	4.3	11.0	12	2.24
RON OIL & GAS	184.0**	18	339.3	8	48.1	41	77.8	21	26.2	22.0	15.1	21	1.02
XON	28429.0**	16	55138.0	16	1630.0	84	3290.0	61	5.7	3.6	16.1	14	5.08
NA	965.4	15	1828.5	13	41.8	213	75.3	96	4.3	1.6	12.0	11	4.45
UISIANA LAND & EXPLORATION	213.1**	12	406.2	2	6.4	967	9.9	46	3.0	0.3	–63.0	NM	–6.68
TCHELL ENERGY & DEVELOPMENT (11)	215.0	–5	438.9	–4	–3.2	NM	5.8	–53	NM	4.6	7.0	27	0.61
OBIL	18849.0***	16	36476.0	16	179.0	–10	815.0	11	1.0	1.2	10.2	22	4.50
URPHY OIL	449.0**	6	870.1	5	20.6	–25	36.6	–29	4.6	6.5	7.2	20	2.05
CIDENTAL PETROLEUM	2679.0	24	5393.0	26	187.0	NM	365.0	NM	7.0	NM	9.4	24	0.95
YX ENERGY	285.0**	12	578.0	12	25.0	NM	38.0	NM	8.8	NM	NM	36	0.40
ILLIPS PETROLEUM	3636.0**	20	6760.0	14	113.0	49	224.0	10	3.1	2.5	16.7	18	1.92
TTSTON MINERALS GROUP	184.2	–9	380.0	0	4.6	–31	5.1	NM	2.5	3.3	NM	5	2.16
AKER STATE	257.7	60	497.2	51	–4.5	NM	–0.3	NM	NM	0.9	2.5	45	0.35
N	2915.0***	29	5503.0	27	109.0	808	102.0	122	3.7	0.5	8.5	20	1.43
XACO	9252.0**	16	18311.0	19	262.0	128	563.0	78	2.8	1.4	12.3	15	4.45
SCO	1904.0	36	3600.4	24	20.7	43	16.5	–69	1.1	1.0	8.1	25	1.25
ION TEXAS PETROLEUM HOLDINGS	200.0	37	440.0	29	20.0	150	67.0	91	10.0	5.5	24.4	18	1.13
OCAL	2062.0**	14	3759.0	7	78.0	32	152.0	25	3.8	3.3	5.1	53	0.51
X–MARATHON GROUP	3528.0*	14	6865.0	17	108.0	50	185.0	2	3.1	2.3	10.0	18	1.10
LERO ENERGY	744.6	79	1435.1	106	20.5	386	24.3	131	2.8	1.0	2.9	34	0.66
STAR RESOURCES	184.7**	–5	358.0	–11	21.6	–32	45.3	–42	11.7	16.3	254.0	23	1.20
) PETROLEUM SERVICES													
ROUP COMPOSITE	**4761.9**	**9**	**9204.4**	**6**	**289.7**	**75**	**533.6**	**52**	**6.1**	**3.8**	**11.4**	**24**	**1.91**
KER HUGHES (3)	668.4	13	1321.0	6	32.2	–6	60.2	4	4.8	5.8	6.9	27	0.81
ALLIBURTON	1444.5**	1	2766.6	–1	56.2	NM	95.3	NM	3.9	NM	14.0	16	2.40
HLUMBERGER	1877.1	15	3639.4	11	166.9	35	313.7	28	8.9	7.5	12.9	27	2.50
ITH INTERNATIONAL	206.0**	19	405.6	48	10.1	20	20.9	30	4.9	4.9	15.4	16	1.04
ESTERN ATLAS	566.0	2	1071.9	1	24.3	33	43.5	26	4.3	3.3	6.8	27	1.67
2 HEALTH CARE													
DUSTRY COMPOSITE	**58098.9**	**20**	**113655.4**	**19**	**5417.0**	**15**	**11660.0**	**21**	**9.3**	**9.7**	**25.4**	**19**	**2.60**
) DRUG DISTRIBUTION													
ROUP COMPOSITE	**17041.6**	**17**	**33869.9**	**17**	**282.7**	**21**	**641.3**	**56**	**1.7**	**1.6**	**10.3**	**26**	**1.24**
BOR DRUGS (5)	174.8	12	359.9	14	5.2	NM	12.7	162	3.0	NM	15.5	18	0.93
RGEN BRUNSWIG (3)	2157.4**	15	4241.6	14	16.9	12	34.7	18	0.8	0.8	13.0	13	1.63
G B (11)	195.2	9	388.0	8	4.8	17	11.8	22	2.5	2.3	10.5	14	1.02
NDLEY WESTERN INDUSTRIES	1126.3	14	2240.0	18	4.2	12	8.4	14	0.4	0.4	8.5	11	1.39
ARDINAL HEALTH (6)	2032.6	28	4020.6	30	22.2	33	48.1	523	1.1	1.0	16.2	22	2.01
RUG EMPORIUM (10)	165.1	–13	345.4	–12	0.5	82	2.5	122	0.3	0.1	–11.1	NM	–0.39
CKERD (11)	1219.6	7	2522.2	9	30.5	13	75.3	20	2.5	2.4	NM	13	2.50
Y'S (11)	266.4	11	552.5	12	0.8	–61	6.6	–15	0.3	0.8	10.7	13	0.57
NOVESE DRUG STORES (11)	179.0	12	337.4	18	1.5	–9	5.6	8	0.9	1.1	14.0	13	0.91
NGS DRUG STORES (11)	639.8	3	1335.0	2	13.3	2	30.6	2	2.1	2.1	9.4	16	2.37
cKESSON (9)	3336.0**	3	6684.1	5	32.8	24	72.4	26	1.0	0.8	–18.6	NM	–4.32

CORPORATE SCOREBOARD

COMPANY	SALES 2ND QUARTER 1995 $ MIL	SALES CHANGE FROM 1994 %	SALES 6 MONTHS 1995 $ MIL	SALES CHANGE FROM 1994 %	PROFITS 2ND QUARTER 1995 $ MIL	PROFITS CHANGE FROM 1994 %	PROFITS 6 MONTHS 1995 $ MIL	PROFITS CHANGE FROM 1994 %	MARGINS 2ND QUARTER 1995 %	MARGINS 2ND QUARTER 1994 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 6-30	PRICE-EARNINGS RATIO 7-21	12 MONTH EARNIN PER SHAR
REVCO D. S. (7)	1577.3	93	2710.3	89	32.6	61	50.3	54	2.1	2.5	8.2	22	0.95
RITE AID (10)	1354.8	29	2708.6	27	38.4	13	91.6	NM	2.8	3.2	14.4	17	1.7
WALGREEN (4)	2617.4	12	5424.4	12	79.0	11	190.5	13	3.0	3.0	18.6	20	2.54
(B) DRUGS & RESEARCH GROUP COMPOSITE	**21173.9**	**21**	**41545.9**	**21**	**3228.2**	**11**	**7366.3**	**22**	**15.2**	**16.6**	**29.9**	**18**	**3.19**
ALLERGAN	262.2	17	490.5	13	–23.0	NM	–1.3	NM	NM	10.5	10.6	28	0.99
AMERICAN HOME PRODUCTS	3299.3	67	6790.3	65	299.6	0	1322.2	85	9.1	15.2	41.4	11	6.99
AMGEN	493.7	19	933.1	20	137.7	28	246.3	23	27.9	25.9	26.1	31	2.67
BRISTOL-MYERS SQUIBB	3445.0	16	6746.0	16	608.0	12	1264.0	13	17.6	18.3	33.3	18	3.90
GENENTECH	233.1**	20	472.0	20	37.2	11	80.6	12	15.9	17.1	9.5	43	1.10
LILLY (ELI)	1614.8	20	3332.1	25	310.0	–3	684.8	10	19.2	23.7	21.4	18	4.33
MERCK	4135.7	9	7953.0	9	858.1	12	1615.5	12	20.7	20.1	28.7	20	2.5
PFIZER	2482.0	29	4884.9	25	316.3	23	736.7	17	12.7	13.4	30.0	20	2.2
RHONE-POULENC RORER	1241.3	17	2339.7	20	91.4	NM	186.6	135	7.4	0.1	25.7	13	3.2
SCHERING-PLOUGH	1332.5	16	2556.7	12	276.1	18	561.0	15	20.7	20.3	56.2	17	2.64
UPJOHN	834.7**	2	1643.4	1	115.9	–2	267.5	11	13.9	14.4	20.2	13	2.90
WARNER-LAMBERT	1799.6	16	3404.2	13	201.0	2	402.4	4	11.2	12.7	37.2	16	5.2
(C) HEALTH-CARE SERVICES GROUP COMPOSITE	**6249.8**	**30**	**11608.7**	**23**	**284.4**	**24**	**610.9**	**9**	**4.6**	**4.8**	**15.8**	**16**	**1.47**
BEVERLY ENTERPRISES	790.4	9	1586.0	10	14.3	–25	30.9	–10	1.8	2.6	9.4	18	0.70
HEALTH CARE & RETIREMENT	176.9	17	348.2	15	12.4	19	24.4	22	7.0	6.9	13.0	21	1.39
HEALTHSOUTH	378.9	26	716.9	23	–2.1	NM	17.8	–39	NM	5.4	9.7	36	0.59
HILLHAVEN (7)	411.5**	9	807.7	8	12.9	–3	24.3	–4	3.1	3.5	11.1	18	1.59
HORIZON/CMS HEALTHCARE (7)	161.2**	43	327.8	63	10.7	70	19.8	83	6.6	5.6	9.5	16	1.40
MANOR CARE (7)	354.2	14	676.3	14	26.4	16	45.1	18	7.4	7.3	15.8	20	1.5
ORNDA HEALTHCORP (4)	497.9**	51	940.6	53	22.1	NM	42.0	NM	4.4	NM	8.3	31	0.6
TENET HEALTHCARE (7)	1356.3	95	2016.8	43	35.3	212	84.2	–17	2.6	1.6	13.1	14	1.1
U. S. HEALTHCARE	866.7**	19	1700.5	18	93.1	0	187.6	3	10.7	12.8	40.3	13	2.43
UNITED WISCONSIN SERVICES	253.2**	41	496.3	42	–5.7	NM	–1.5	NM	NM	4.1	8.0	15	1.3
UNIVERSAL HEALTH SERVICES	214.2**	11	434.9	12	9.6	17	21.4	16	4.5	4.2	11.6	13	2.20
WELLPOINT HEALTH NETWORK	788.5**	14	1556.6	13	55.4	11	114.9	3	7.0	7.2	14.4	13	2.18
(D) MEDICAL PRODUCTS GROUP COMPOSITE	**13633.6**	**17**	**26630.9**	**18**	**1621.6**	**20**	**3041.5**	**16**	**11.9**	**11.7**	**24.3**	**21**	**2.29**
ABBOTT LABORATORIES	2500.3	13	5024.7	14	424.0	13	841.3	13	17.0	17.1	39.1	19	2.07
BARD (C. R.)	277.2	8	541.3	7	24.1	3	48.3	5	8.7	9.1	16.7	20	1.4
BAUSCH & LOMB	535.5	11	1001.1	9	51.6	56	71.9	5	9.6	6.8	1.8	NM	0.3
BAXTER INTERNATIONAL	2465.0	6	4783.0	6	165.0	15	310.0	13	6.7	6.2	17.1	16	2.2
BECTON, DICKINSON (3)	704.1	8	1396.9	8	66.7	15	131.6	14	9.5	8.9	18.6	16	3.5
BOSTON SCIENTIFIC	227.3	30	443.0	27	45.9	56	–22.7	NM	20.2	16.8	3.5	NM	0.2
GUIDANT	224.1	8	448.9	9	21.2	6	42.3	–1	9.5	9.7	32.4	NA	N
JOHNSON & JOHNSON	4762.0	22	9258.0	22	661.0	18	1315.0	19	13.9	14.3	28.1	20	3.4
MEDTRONIC (8)	516.7	32	930.4	28	87.8	32	159.2	29	17.0	17.0	24.4	30	2.5
OWENS & MINOR	743.7	28	1490.8	53	1.7	NM	6.3	NM	0.2	NM	6.6	40	0.3
ST. JUDE MEDICAL	185.6	178	366.1	174	33.1	26	63.7	21	17.9	39.3	14.4	27	1.9
STRYKER	228.5	48	442.5	46	20.4	20	41.2	20	8.9	11.0	21.0	27	1.6
U. S. SURGICAL	263.6	14	504.2	10	19.1	139	33.5	NM	7.2	3.4	4.9	42	0.5
13 HOUSING & REAL ESTATE INDUSTRY COMPOSITE	**11959.9**	**10**	**22444.9**	**12**	**731.5**	**32**	**1138.1**	**69**	**6.1**	**5.1**	**19.4**	**15**	**2.1**
(A) BUILDING MATERIALS GROUP COMPOSITE	**8910.2**	**11**	**16683.4**	**15**	**643.2**	**56**	**987.9**	**123**	**7.2**	**5.1**	**24.1**	**15**	**2.3**
AMERICAN STANDARD	1371.0	21	2594.2	22	50.0	NM	76.5	NM	3.6	NM	NM	NM	0.1
LAFARGE	396.0	–6	592.8	–6	49.7	30	7.7	NM	12.6	9.0	14.0	12	1.6
MARTIN MARIETTA MATERIALS	175.9	29	305.9	32	20.0	8	28.2	22	11.4	13.5	16.7	14	1.3
NATIONAL GYPSUM	165.9	4	338.1	13	2.1	–90	6.6	NM	1.2	13.2	12.1	26	1.9
NORTEK	194.2	0	379.0	4	3.2	–42	5.7	–8	1.6	2.8	13.7	6	1.3
OWENS-CORNING FIBERGLAS	877.0	3	1721.0	13	62.0	38	95.0	NM	7.1	5.3	NM	9	4.1
PPG INDUSTRIES	1870.4	15	3611.2	17	216.8	125	436.0	100	11.6	5.9	26.7	12	3.5
RPM (7)	280.4	29	510.2	26	20.1	19	27.4	17	7.2	7.8	17.6	18	1.0
SHERWIN-WILLIAMS	904.7	3	1621.5	7	73.2	6	91.9	9	8.1	7.9	18.3	16	2.2
TECUMSEH PRODUCTS	467.3	10	940.9	16	35.3	–2	70.2	8	7.6	8.5	15.2	8	5.7
TEXAS INDUSTRIES (7)	229.5**	15	430.7	16	18.4	16	25.2	35	8.0	7.9	12.8	11	3.8
USG	615.0	9	1213.0	14	–3.0	NM	–5.0	NM	NM	NM	NM	NM	–1.0
VALSPAR (2)	205.0	–17	368.3	–7	12.2	–16	17.5	7	5.9	5.8	23.5	19	2.0
VULCAN MATERIALS	382.8	17	677.2	25	47.7	42	63.7	123	12.5	10.3	18.2	16	3.6
YORK INTERNATIONAL	775.0	22	1379.3	18	35.6	17	54.3	19	4.6	4.8	12.7	17	2.5
(B) CONSTRUCTION & REAL ESTATE GROUP COMPOSITE	**3049.7**	**6**	**5761.5**	**6**	**88.3**	**–37**	**150.2**	**–34**	**2.9**	**4.9**	**9.6**	**13**	**1.5**
CENTEX (9)	701.0**	–16	1497.0	–10	7.9	–85	16.8	–78	1.1	6.4	7.0	16	1.6
CHAMPION ENTERPRISES	218.0	39	397.1	41	8.7	10	14.5	14	4.0	5.0	31.4	10	1.7
KAUFMAN & BROAD HOME (1)	315.5	–3	545.3	–6	3.8	66	4.3	–79	1.2	3.5	5.2	18	0.7
LENNAR (1)	210.5**	2	391.7	–2	19.7	9	34.7	6	9.3	8.7	12.3	10	1.9
M. D. C. HOLDINGS	215.3**	9	407.8	11	4.3	–24	8.4	–12	2.0	2.9	9.2	8	0.8
OAKWOOD HOMES (3)	204.2**	24	395.3	34	12.2	22	22.7	30	6.0	6.1	14.1	15	1.7

ORPORATE SCOREBOARD

OMPANY	SALES 2ND QUARTER 1995 $ MIL.	SALES CHANGE FROM 1994 %	SALES 6 MONTHS 1995 $ MIL.	SALES CHANGE FROM 1994 %	PROFITS 2ND QUARTER 1995 $ MIL.	PROFITS CHANGE FROM 1994 %	PROFITS 6 MONTHS 1995 $ MIL.	PROFITS CHANGE FROM 1994 %	MARGINS 2ND QUARTER 1995 %	MARGINS 2ND QUARTER 1994 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 6-30	PRICE-EARNINGS RATIO 7-21	12 MONTHS' EARNINGS PER SHARE
ULTE	485.5**	13	818.3	6	9.5	–40	9.1	–67	2.0	3.7	6.2	16	1.60
KYLINE (7)	171.7	2	322.3	8	4.7	–11	7.3	–6	2.7	3.1	8.7	13	1.38
.S. HOME	259.3**	8	522.5	12	7.8	9	16.0	12	3.0	3.0	11.9	8	3.00
EBB (DEL) (6)	268.8**	67	464.2	56	9.6	50	16.6	51	3.6	4.0	13.0	12	1.87
4 LEISURE TIME INDUSTRIES													
NDUSTRY COMPOSITE	21150.4	11	38999.9	13	1692.2	7	3053.8	14	8.0	8.4	17.6	21	1.66
A) EATING PLACES													
ROUP COMPOSITE	4472.6	13	7002.1	15	463.0	8	790.0	14	10.4	10.9	17.1	21	1.45
OB EVANS FARMS (8)	189.0	7	374.6	9	12.3	4	26.2	9	6.5	6.6	13.6	16	1.27
RINKER INTERNATIONAL (6)	280.0	18	548.5	18	19.9	10	38.1	11	7.1	7.6	15.4	19	0.98
RACKER BARREL OLD COUNTRY STORE (5)	188.3	21	376.9	23	15.1	20	27.4	22	8.0	8.1	13.6	20	1.06
ARDEN RESTAURANTS (7)	838.0	6	NA	NA	18.2	–55	NA	NA	2.2	5.1	4.2	33	0.31
cDONALD'S	2467.6	22	4628.9	21	379.7	18	660.4	17	15.4	15.9	18.7	21	1.81
ORRISON RESTAURANTS (7)	269.4**	–13	541.3	–13	12.4	1	25.5	4	4.6	3.9	26.4	14	1.73
HONEY'S (2)	240.2	0	531.9	0	5.5	–58	12.4	–46	2.3	5.4	NM	12	1.07
B) HOTEL & MOTEL													
ROUP COMPOSITE	3263.9	5	6427.0	6	155.7	–3	324.5	17	4.8	5.2	16.3	23	1.35
RCUS CIRCUS ENTERPRISES (11)	295.0	4	573.8	2	39.4	22	70.3	22	13.4	11.3	19.8	18	1.68
ARRAH'S ENTERTAINMENT	389.3	15	745.8	19	35.4	19	64.0	24	9.1	8.8	9.5	44	0.61
ARRIOTT INTERNATIONAL	2112.0	7	4125.0	6	59.0	23	111.0	22	2.8	2.4	25.8	23	1.68
GM GRAND	168.4	–10	330.3	–9	–6.6	NM	–1.1	NM	NM	10.8	9.0	25	0.99
IRAGE RESORTS	299.1	–2	652.1	7	28.6	–5	80.3	50	9.6	9.8	14.0	18	1.60
C) OTHER LEISURE													
ROUP COMPOSITE	13413.9	12	25570.8	14	1073.6	8	1939.4	13	8.0	8.3	18.0	21	1.84
MERICAN GREETINGS (10)	438.5	5	938.9	6	37.3	12	80.6	11	8.5	8.0	12.9	15	2.05
NTHONY INDUSTRIES	159.4	21	304.4	26	6.4	27	8.5	55	4.0	3.8	15.7	15	1.30
RUNSWICK	839.2	12	1613.4	17	37.1	–33	77.3	–5	4.4	7.4	13.2	14	1.30
ARNIVAL (1)	452.8	11	872.6	10	89.8	15	157.4	10	19.8	19.0	20.0	16	1.41
ML GROUP (5)	179.5	2	428.6	7	–0.7	NM	36.9	–33	NM	10.6	12.8	15	0.54
OLEMAN	311.3**	21	535.3	23	27.6	14	40.8	14	8.9	9.4	14.3	25	1.45
ISNEY (WALT) (3)	2764.0	17	5686.8	23	318.2	19	633.7	23	11.5	11.4	22.2	22	2.53
ASTMAN KODAK	3938.0	15	7075.0	14	377.0	28	639.0	45	9.6	8.6	18.7	26	2.22
LEETWOOD ENTERPRISES (8)	719.5	1	1381.0	9	15.9	–31	34.2	–3	2.2	3.2	13.9	11	1.82
ARLEY-DAVIDSON	486.5	21	876.2	18	33.4	–3	57.0	3	6.9	8.6	25.4	18	1.40
ASBRO	481.9	8	1008.4	8	–14.9	NM	6.8	–76	NM	0.4	11.1	17	1.77
UFFY	200.4	–7	401.1	–1	0.3	–96	4.8	–63	0.2	3.7	7.0	18	0.68
ATTEL	763.5	17	1307.0	15	67.5	18	94.5	16	8.8	8.8	24.0	24	1.18
USICLAND STORES	331.7	21	678.1	25	–7.5	NM	–13.8	NM	NM	NM	2.3	43	0.24
UTBOARD MARINE (3)	329.6	3	648.4	11	28.0	0	46.0	–2	8.5	8.8	24.1	7	2.66
OLAROID	572.5	–3	982.1	–6	22.9	–22	–52.9	NM	4.0	5.0	4.3	62	0.68
OYAL CARIBBEAN CRUISES	282.5	–3	556.1	–4	31.5	–14	82.9	15	11.2	12.6	18.1	9	2.42
HOR INDUSTRIES (5)	163.1	26	277.5	26	3.7	8	6.0	10	2.3	2.7	16.0	10	1.91
5 MANUFACTURING													
NDUSTRY COMPOSITE	38174.5	16	73175.3	16	2013.0	1	4037.2	13	5.3	6.0	19.1	17	2.37
A) GENERAL MANUFACTURING													
ROUP COMPOSITE	13575.5	16	26425.7	17	512.3	–39	1349.1	–10	3.8	7.2	16.3	20	2.05
VERY DENNISON	780.5	9	1553.7	12	35.7	28	70.2	32	4.6	3.9	16.6	18	2.34
ARLISLE	200.8	9	388.8	15	12.4	23	21.0	24	6.2	5.5	15.8	16	2.55
ORNING	1306.5**	18	2429.5	18	–297.2	NM	–217.8	NM	NM	10.0	–5.3	NM	–0.47
EDERAL SIGNAL	199.4	22	386.5	28	14.5	17	25.3	23	7.3	7.6	22.9	20	1.12
ARSCO†	377.3	12	734.2	12	24.6	40	50.0	38	6.5	5.2	16.1	13	3.99
ILLENBRAND INDUSTRIES (1)	404.9	6	801.1	5	27.8	–15	55.3	–22	6.9	8.6	10.2	28	1.05
LINOIS TOOL WORKS	1090.7	24	2019.8	22	106.2	50	181.3	49	9.7	8.0	21.0	19	2.93
OHNSON CONTROLS (3)	2180.9	24	4231.4	23	55.3	21	87.6	23	2.5	2.6	16.9	14	4.27
ARK IV INDUSTRIES (10)	518.5	43	1003.5	47	24.6	44	42.2	47	4.7	4.7	11.9	16	1.44
INNESOTA MINING & MFG.	4135.0	10	8222.0	11	353.0	3	729.0	12	8.5	9.1	19.7	18	3.34
EWELL	621.3	26	1177.9	26	54.9	25	91.0	21	8.8	8.9	18.3	18	1.34
OLARIS INDUSTRIES	285.4	58	540.2	66	12.5	71	25.5	89	4.4	4.0	79.7	5	7.45
UBBERMAID	556.8	5	1120.7	10	28.8	–49	83.0	–22	5.2	10.6	15.5	23	1.27
EALED AIR	182.1	44	355.4	46	12.6	46	24.2	49	6.9	6.8	76.2	22	2.21
ELEFLEX	233.9	12	460.8	15	13.3	19	25.6	21	5.7	5.3	14.2	16	2.59
RINOVA	501.6	9	1000.3	11	33.3	72	55.9	71	6.6	4.2	23.3	12	3.02
B) MACHINE & HAND TOOLS													
ROUP COMPOSITE	4235.9	15	8167.6	16	193.5	30	360.3	41	4.6	4.1	15.9	16	2.12
LACK & DECKER	1329.0	9	2528.8	10	34.8	51	60.5	61	2.6	1.9	12.7	19	1.63
LOUNT (10)	164.2	13	310.7	15	14.3	59	23.3	84	8.7	6.2	22.3	14	3.50
INCINNATI MILACRON	413.6	54	745.0	45	8.4	6	21.4	66	2.0	2.9	26.1	23	1.35
ANAHER	391.5	23	768.0	26	27.2	41	49.1	45	7.0	6.1	19.3	19	1.64
IDDINGS & LEWIS	171.1	18	325.7	22	9.3	29	16.4	16	5.4	5.0	10.1	11	1.47

CORPORATE SCOREBOARD

COMPANY	SALES 2ND QUARTER 1995 $ MIL	CHANGE FROM 1994 %	6 MONTHS 1995 $ MIL	CHANGE FROM 1994 %	PROFITS 2ND QUARTER 1995 $ MIL	CHANGE FROM 1994 %	6 MONTHS 1995 $ MIL	CHANGE FROM 1994 %	MARGINS 2ND QUARTER 1995 %	MARGINS 2ND QUARTER 1994 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 6-30	PRICE-EARNINGS RATIO 7-21	12 MONTHS EARNINGS PER SHARE
KENNAMETAL (6)	266.6	21	534.7	24	23.6	71	45.8	84	8.9	6.3	18.1	15	2.58
NACCO INDUSTRIES	517.6	18	1020.0	24	14.7	60	27.5	130	2.8	2.1	20.6	9	6.79
SNAP-ON	326.8**	9	635.9	6	29.7	14	56.2	15	9.1	8.7	14.0	17	2.50
STANLEY WORKS	655.5	4	1298.8	7	31.5	–7	60.2	2	4.8	5.4	16.8	14	2.84
(C) SPECIAL MACHINERY													
GROUP COMPOSITE	**16778.6**	**17**	**31642.7**	**17**	**1179.7**	**35**	**2097.7**	**29**	**7.0**	**6.1**	**23.8**	**15**	**3.49**
APPLIED MATERIALS (2)	675.4	64	1181.5	57	93.6	70	159.4	72	13.9	13.4	24.4	29	3.25
CASE	1418.0**	23	2596.0	18	110.0	93	180.0	100	7.8	5.0	19.9	10	3.51
CATERPILLAR	4213.0	17	8126.0	18	323.0	35	623.0	44	7.7	6.7	36.0	12	5.69
COLTEC INDUSTRIES	361.5	7	717.9	7	24.1	–1	47.6	6	6.7	7.2	NM	11	1.38
DEERE (2)	2840.1**	15	4946.4	18	237.1	25	375.5	36	8.3	7.7	24.6	11	8.13
DOVER	948.2	25	1802.3	25	78.9	50	138.7	46	8.3	6.9	22.0	18	4.33
DRESSER INDUSTRIES (2)	1261.2	–5	2561.5	–6	45.1	–17	83.7	–67	3.6	4.1	12.1	21	1.07
FMC	1128.4	7	2143.9	9	77.7	15	130.1	15	6.9	6.4	40.2	14	5.07
GOULDS PUMPS	180.7	20	340.7	19	8.3	51	13.7	47	4.6	3.7	12.0	20	1.07
HARNISCHFEGER INDUSTRIES (2)	551.7**	51	1010.3	41	21.0	341	35.6	305	3.8	1.3	10.1	28	1.31
INGERSOLL-RAND	1392.1	22	2577.7	20	66.6	29	112.9	33	4.8	4.5	14.9	18	2.27
PENTAIR	338.2	13	672.0	13	13.3	12	27.2	24	3.9	4.0	12.7	16	2.84
STEWART & STEVENSON SERVICES (11)	289.0	12	576.8	15	16.0	7	34.5	8	5.5	5.8	15.8	18	2.08
TIMKEN	585.8	19	1154.7	20	31.2	51	65.5	131	5.3	4.2	13.8	14	3.39
VARITY (11)	595.3	20	1234.9	26	33.7	32	70.3	48	5.7	5.2	15.7	17	2.87
(D) TEXTILES													
GROUP COMPOSITE	**3584.4**	**8**	**6939.5**	**10**	**127.4**	**0**	**230.1**	**22**	**3.6**	**3.8**	**17.0**	**22**	**0.84**
ALBANY INTERNATIONAL	166.8	19	321.0	18	11.6	96	19.3	102	7.0	4.2	12.0	23	1.12
COLLINS & AIKMAN (11)	392.1	0	774.2	6	28.9	127	53.6	NM	7.4	3.3	NM	NM	–1.00
CONE MILLS	233.0	16	459.2	15	–0.9	NM	2.8	–86	NM	4.9	8.2	24	0.57
FIELDCREST CANNON	273.0	7	530.1	9	–1.5	NM	2.0	–83	NM	2.6	6.8	12	1.85
GUILFORD MILLS (3)	210.8	15	412.6	22	11.2	26	20.6	60	5.3	4.9	14.0	11	2.53
INTERFACE	202.8	12	394.1	15	5.1	37	9.1	39	2.5	2.0	7.5	14	0.95
MOHAWK INDUSTRIES	429.8	16	809.6	16	5.6	–55	9.9	–18	1.3	3.4	11.2	18	0.92
SHAW INDUSTRIES	738.3	2	1414.9	5	18.7	–57	23.2	–67	2.5	6.1	12.3	26	0.61
SPRINGS INDUSTRIES	532.7	3	1015.8	2	14.4	10	24.3	28	2.7	2.5	11.5	11	3.77
UNIFI (6)	405.1	12	808.1	14	34.3	259	65.4	102	8.5	2.6	19.3	15	1.67
16 METALS & MINING													
INDUSTRY COMPOSITE	**20906.9**	**20**	**41030.9**	**23**	**1528.5**	**163**	**2936.7**	**319**	**7.3**	**3.4**	**20.5**	**11**	**2.46**
(A) ALUMINUM													
GROUP COMPOSITE	**6285.9**	**24**	**12158.3**	**27**	**392.9**	**979**	**782.6**	**NM**	**6.3**	**0.7**	**17.6**	**13**	**3.73**
ALUMAX	721.2	5	1419.8	11	39.2	NM	149.6	NM	5.4	0.4	15.0	8	4.29
ALUMINUM CO. OF AMERICA	3117.3	26	6127.1	30	219.4	383	413.2	NM	7.0	1.8	21.1	12	4.77
KAISER ALUMINUM	583.4	27	1096.4	25	23.3	NM	26.8	NM	4.0	NM	NM	NM	–0.74
REYNOLDS METALS	1864.0	28	3515.0	30	111.0	833	193.0	NM	6.0	0.8	14.5	14	4.47
(B) STEEL													
GROUP COMPOSITE	**10379.8**	**12**	**20513.7**	**14**	**637.3**	**64**	**1168.6**	**144**	**6.1**	**4.2**	**25.5**	**10**	**2.18**
AK STEEL HOLDING	595.9	16	1206.3	26	78.4	127	146.7	227	13.2	6.7	70.5	2	13.73
ALLEGHENY LUDLUM	390.5	127	785.8	62	34.5	NM	63.3	NM	8.8	NM	24.7	16	1.31
ARMCO	390.6	10	759.0	3	35.9	–49	38.3	–10	9.2	19.7	NM	13	0.53
BETHLEHEM STEEL	1250.2	2	2490.9	5	60.3	132	112.8	190	4.8	2.1	9.4	16	1.02
COMMERCIAL METALS (4)	574.2**	30	1107.1	33	11.4	59	21.6	90	2.0	1.6	12.6	11	2.48
GENEVA STEEL (3)	175.2	55	332.4	42	5.7	NM	6.8	NM	3.3	NM	–6.4	NM	–0.43
INLAND STEEL INDUSTRIES	1273.5	12	2531.2	14	57.9	83	101.9	150	4.5	2.8	24.3	9	3.13
J & L SPECIALTY STEEL	241.4	31	483.1	41	31.3	99	49.3	118	13.0	8.5	22.9	10	2.07
LTV	1113.2	5	2198.1	7	64.6	67	115.5	111	5.8	3.7	14.1	9	1.78
LUKENS	271.8	12	531.8	15	9.5	45	18.6	355	3.5	2.7	12.5	13	2.35
NORTHWESTERN STEEL & WIRE (5)	166.6	11	312.4	8	3.4	107	5.6	69	2.1	1.1	21.9	17	0.54
NUCOR	880.2	19	1721.9	24	69.9	41	137.2	62	7.9	6.7	23.6	17	3.20
QUANEX (2)	234.3	36	434.2	35	9.8	160	14.5	161	4.2	2.2	14.3	15	1.62
ROUGE STEEL	298.5	–6	618.8	–4	25.3	–14	51.3	6	8.5	9.3	33.8	5	5.03
USX–U. S. STEEL GROUP	1623.0	6	3200.0	10	81.0	45	155.0	638	5.0	3.7	34.0	8	4.09
WCI STEEL (2)	177.8	2	352.9	6	11.1	25	22.0	75	6.3	5.1	60.9	6	1.12
WEIRTON STEEL	319.0	–5	673.7	2	12.9	–31	45.0	110	4.0	5.6	41.4	4	1.38
WORTHINGTON INDUSTRIES (7)	403.9	7	774.0	11	34.3	33	63.0	38	8.5	6.9	20.7	16	1.29
(C) OTHER METALS													
GROUP COMPOSITE	**4241.1**	**40**	**8358.9**	**46**	**498.3**	**215**	**985.5**	**247**	**11.7**	**5.2**	**18.0**	**11**	**2.18**
ASARCO	787.5	61	1578.5	70	56.4	952	122.1	282	7.2	1.1	10.0	9	3.66
COMMONWEALTH ALUMINUM	192.2	58	366.1	62	12.9	142	21.6	721	6.7	4.4	21.5	5	4.03
CYPRUS AMAX MINERALS	875.0	26	1682.0	31	134.0	319	231.0	353	15.3	4.6	13.7	8	3.54
FREEPORT-McMORAN	233.4	25	487.9	32	7.3	NM	9.5	NM	3.1	NM	NM	NM	–0.04
FREEPORT-McMORAN COPPER & GOLD	421.5	50	830.3	52	54.2	143	111.6	132	12.9	7.9	33.2	NA	0.68
MAGMA COPPER	361.5	65	659.1	67	54.4	164	106.2	276	15.1	9.4	19.0	6	3.13
MUELLER INDUSTRIES	181.4	33	353.2	37	10.7	85	20.7	108	5.9	4.2	15.5	12	4.08
PHELPS DODGE	1024.2	31	2057.7	40	159.5	147	344.8	205	15.6	8.3	20.9	9	7.12
WOLVERINE TUBE	164.5	28	344.2	33	8.9	31	18.1	31	5.4	5.3	21.0	17	2.10

ORPORATE SCOREBOARD

MPANY	SALES 2ND QUARTER 1995 $ MIL.	CHANGE FROM 1994 %	SALES 6 MONTHS 1995 $ MIL.	CHANGE FROM 1994 %	PROFITS 2ND QUARTER 1995 $ MIL.	CHANGE FROM 1994 %	PROFITS 6 MONTHS 1995 $ MIL.	CHANGE FROM 1994 %	MARGINS 2ND QUARTER 1995 %	MARGINS 2ND QUARTER 1994 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 6-30	PRICE-EARNINGS RATIO 7-21	12 MONTHS' EARNINGS PER SHARE
NONBANK FINANCIAL													
DUSTRY COMPOSITE	**72547.4**	**16**	**135636.0**	**13**	**5363.5**	**7**	**10427.6**	**16**	**7.4**	**8.3**	**13.6**	**13**	**3.48**
FINANCIAL SERVICES													
OUP COMPOSITE	**39351.6**	**19**	**71072.5**	**14**	**3039.2**	**14**	**5595.3**	**4**	**7.7**	**8.6**	**15.2**	**14**	**3.30**
X. BROWN	201.1**	40	352.5	15	23.0	59	39.4	5	11.4	10.1	18.1	10	4.82
XANDER & ALEXANDER SERVICES	328.1	–2	652.3	–1	22.7	497	64.4	NM	6.9	1.1	–19.0	NM	–1.55
EGHANY	415.2	–11	812.2	–14	17.2	5	18.0	–46	4.1	3.5	4.8	21	7.49
ERICAN EXPRESS	3967.0**	13	7738.0	13	410.0	14	763.0	13	10.3	10.3	21.4	12	2.87
IEFICIAL	594.2	16	1154.4	10	62.8	12	83.5	–29	10.6	11.0	10.7	17	2.62
CK (H&R) (8)	774.0**	0	1042.1	4	103.4	–47	111.5	–37	13.4	25.1	19.1	38	1.01
ITAL ONE FINANCIAL	239.2	45	458.4	46	29.6	–14	54.8	–21	12.4	20.9	15.1	19	1.21
NTRYWIDE CREDIT INDUSTRIES (10)	404.8	68	629.3	21	36.2	7	55.6	–31	8.9	14.0	9.3	21	0.99
N WITTER, DISCOVER	1424.9**	15	2792.5	11	237.5	15	459.6	10	16.7	16.7	18.2	10	4.61
VARDS (A. G.) (10)	325.3	8	617.4	–1	35.4	16	67.5	–4	10.9	10.1	13.6	12	2.06
IFAX	407.4	19	791.6	20	35.8	25	65.3	23	8.8	8.4	33.8	21	1.76
NIE MAE	5450.7**	21	10738.8	22	577.8	8	1141.8	8	10.6	11.9	21.6	11	8.13
ERAL HOME LOAN MORTGAGE	2295.0	41	4425.0	38	264.0	6	522.0	–1	11.5	15.3	18.7	12	5.30
OVA GROUP	188.8	49	366.5	83	23.6	37	46.0	60	12.5	13.7	11.6	12	3.25
ST AMERICAN FINANCIAL	293.2**	–21	554.4	–25	1.1	–85	–11.6	NM	0.4	2.1	–3.4	NM	–0.84
ST FINANCIAL MANAGEMENT	782.0**	51	1466.3	50	44.5	30	79.9	25	5.7	6.6	12.0	29	2.79
USEHOLD INTERNATIONAL	1006.1**	11	1937.6	5	106.3	26	202.3	25	10.6	9.3	16.4	13	3.88
MAN BROTHERS HOLDINGS (1)	3298.0	NA	6410.0	NA	58.0	NA	103.0	NA	1.8	NA	4.6	19	1.16
RSH & McLENNAN	935.2	11	1890.4	8	101.8	6	226.6	0	10.9	11.4	24.5	15	5.23
RRILL LYNCH	5585.0**	25	10788.9	17	282.8	12	510.1	–18	5.1	5.6	17.1	13	4.34
RGAN STANLEY GROUP (1)	2667.0	18	NA	NA	166.0	37	NA	NA	6.2	5.4	NA	NA	NA
NEWEBBER GROUP	1332.2	48	2566.2	29	–90.5	NM	–56.2	NM	NM	NM	–4.6	NA	– 0.77
LIE MAE	973.4	37	1934.2	43	83.1	–24	166.8	–28	8.5	15.3	29.0	11	4.53
OMON	401.0**	135	1144.0	30	–60.0	NM	21.0	NM	NM	NM	–8.8	NM	–2.91
IWAB (CHARLES)	342.7**	33	639.6	17	44.4	38	82.8	18	13.0	12.5	29.0	26	1.67
VELERS GROUP	4549.0	–1	8848.0	–6	406.0	27	746.0	13	8.9	7.0	15.0	11	4.19
TED ASSET MANAGEMENT	171.0	48	322.1	36	16.8	17	32.4	11	9.8	12.4	12.6	18	2.05
INSURANCE													
OUP COMPOSITE	**29980.0**	**13**	**58299.6**	**11**	**2093.9**	**0**	**4398.5**	**32**	**7.0**	**7.9**	**12.7**	**12**	**4.05**
NA LIFE & CASUALTY	4447.1**	1	8931.6	2	–296.9	NM	–136.1	NM	NM	3.0	2.5	44	1.37
AC	1932.8	30	3646.4	27	92.9	34	177.8	28	4.8	4.7	16.7	13	3.25
STATE	5671.1	8	11244.5	7	519.1	29	1060.8	737	9.2	7.7	14.7	10	3.16
ERICAN INTERNATIONAL GROUP	5970.2**	15	11517.6	15	633.8	15	1205.9	14	10.6	10.6	13.6	15	4.91
ERICAN NATIONAL INSURANCE	353.9	0	703.4	4	38.9	–27	84.3	–6	11.0	15.2	10.1	8	7.91
JBB	1525.8**	8	2989.9	7	185.0	26	331.7	51	12.1	10.4	14.0	11	7.22
NSECO†	594.6	50	1131.2	43	99.9	192	124.3	7	16.8	8.7	21.8	8	6.48
MONT GENERAL	253.0	60	452.2	44	16.9	20	31.1	13	6.7	8.9	15.4	8	3.45
COLN NATIONAL	1646.2**	23	3129.9	1	117.9	152	252.7	28	7.2	3.5	11.7	10	3.89
L REVERE	377.2	8	735.5	10	25.4	–23	42.6	–28	6.7	9.4	6.0	10	1.67
GRESSIVE	759.5	28	1453.3	30	60.8	1	121.5	12	8.0	10.2	24.1	10	3.78
TECTIVE LIFE	209.9	3	420.6	5	17.9	9	36.9	12	8.5	8.1	20.4	11	2.68
ECO	1000.1**	8	1941.6	5	102.7	14	167.9	15	10.3	9.7	10.6	11	5.34
PAUL	1330.7	14	2598.2	12	113.0	–12	223.6	16	8.5	11.0	15.5	8	5.48
NAMERICA (3)†	270.7**	23	521.6	20	48.3	15	95.6	17	17.8	19.2	20.8	13	4.01
RCHMARK	527.0	13	1057.2	10	70.0	8	138.6	–1	13.3	14.0	19.3	10	3.73
NSAMERICA	1581.0	16	3001.5	16	117.8	11	214.1	2	7.5	7.8	14.3	10	5.79
TRIN	373.3	10	712.2	5	41.6	47	72.8	36	11.1	8.3	11.1	12	3.70
JM	1156.1	25	2111.2	17	88.9	4	152.3	–6	7.7	9.2	7.1	23	2.01
SAVINGS & LOAN													
OUP COMPOSITE	**3215.9**	**24**	**6263.8**	**21**	**230.4**	**–2**	**433.8**	**42**	**7.2**	**9.0**	**8.4**	**13**	**2.00**
MANSON (H. F.)	1003.0	29	1933.0	24	62.2	–15	112.9	–12	6.2	9.4	5.7	14	1.45
NDALE FEDERAL BANK (6)	291.0	6	630.0	17	12.1	NM	53.0	NM	4.2	NM	8.5	10	1.28
LDEN WEST FINANCIAL	613.4	31	1176.3	26	53.6	–14	104.5	–18	8.7	13.2	10.0	14	3.48
EAT WESTERN FINANCIAL	882.5	23	1709.8	20	50.4	–10	93.9	–11	5.7	7.8	8.4	13	1.59
NDARD FEDERAL BANCORPORATION	240.3	23	471.4	22	28.6	–3	57.7	–1	11.9	15.1	13.5	9	3.67
FINANCIAL	185.7	12	343.4	4	23.4	32	11.8	–65	12.6	10.7	8.8	15	3.36
OFFICE EQUIPMENT & COMPUTERS													
DUSTRY COMPOSITE	**57586.1**	**20**	**111383.5**	**22**	**4791.8**	**56**	**8912.6**	**61**	**8.3**	**6.4**	**19.4**	**21**	**2.38**
BUSINESS MACHINES & SERVICES													
OUP COMPOSITE	**4817.4**	**17**	**9513.6**	**18**	**142.7**	**–12**	**292.4**	**–11**	**3.0**	**3.9**	**16.1**	**24**	**1.08**
L & HOWELL HOLDINGS	190.1	12	377.2	14	1.0	NM	0.5	NM	0.5	NM	NM	NM	–0.54
MPUCOM SYSTEMS	350.7	14	674.2	15	4.8	48	8.6	44	1.4	1.1	20.8	13	0.46
C INTERNATIONAL (11)	291.2	20	572.9	20	34.2	29	67.0	29	11.7	11.0	25.0	40	0.71
LUXE	442.5	7	908.1	8	29.7	1	63.6	–6	6.7	7.2	16.7	20	1.66
BOLD	206.9	10	403.9	11	18.9	17	34.1	18	9.2	8.6	14.8	20	2.26
N INDUSTRIES	206.6	7	423.1	7	7.7	–16	20.3	–3	3.7	4.8	26.5	15	1.73
ELLIGENT ELECTRONICS (11)	827.4	9	1648.8	10	4.9	–62	0.5	–98	0.6	1.7	0.1	NM	0.01
CROAGE (2)	743.5	40	1417.8	42	2.4	–53	5.3	–45	0.3	1.0	6.9	16	0.85
LLER (HERMAN) (7)	291.2	17	551.1	13	–9.3	NM	–5.0	NM	NM	4.3	1.5	NM	0.18

CORPORATE SCOREBOARD

COMPANY	SALES 2ND QUARTER 1995 $ MIL	SALES CHANGE FROM 1994 %	SALES 6 MONTHS 1995 $ MIL	SALES CHANGE FROM 1994 %	PROFITS 2ND QUARTER 1995 $ MIL	PROFITS CHANGE FROM 1994 %	PROFITS 6 MONTHS 1995 $ MIL	PROFITS CHANGE FROM 1994 %	MARGINS 2ND QUARTER 1995 %	MARGINS 2ND QUARTER 1994 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 6-30	PRICE-EARNINGS RATIO 7 21	12 MONTHS' EARNINGS PER SHARE
REYNOLDS & REYNOLDS (3)	231.2	14	459.7	13	19.9	10	39.2	17	8.6	8.9	25.0	18	1.79
STANDARD REGISTER	222.5	21	427.0	16	12.0	14	22.8	11	5.4	5.7	11.7	12	1.61
TECH DATA (11)	633.5	19	1293.4	33	1.8	–80	7.6	–58	0.3	1.7	10.4	19	0.72
WALLACE COMPUTER SERVICES (5)	180.1	27	356.3	21	14.5	25	27.9	14	8.0	8.2	11.7	18	2.28
(B) COMPUTERS & PERIPHERALS													
GROUP COMPOSITE	**41077.5**	**19**	**78993.1**	**21**	**3238.1**	**70**	**5942.2**	**91**	**7.9**	**5.5**	**18.7**	**15**	**3.60**
AMDAHL	378.7	–5	750.2	–3	26.2	110	46.8	139	6.9	3.2	11.2	12	0.85
APPLE COMPUTER (3)	2575.0	20	5227.0	24	103.0	–25	176.0	13	4.0	6.4	17.6	11	3.93
COMPAQ COMPUTER	3501.0	40	6460.0	35	246.0	17	462.0	9	7.0	8.4	21.7	15	3.35
CONNER PERIPHERALS	642.3	–1	1252.7	3	16.7	47	16.8	–70	2.6	4.8	19.4	10	1.36
DELL COMPUTER (11)	1135.9	48	2168.6	44	61.7	225	122.0	233	5.4	2.5	24.3	15	4.05
EMC	435.3	41	855.9	49	79.8	46	157.8	53	18.3	17.7	32.7	16	1.38
HEWLETT-PACKARD (2)	7428.0	19	14732.0	23	577.0	41	1179.0	52	7.8	6.5	18.3	20	3.83
INTERNATIONAL BUSINESS MACHINES	17531.0	14	33266.0	16	1716.0	149	3005.0	178	9.8	4.5	20.4	12	8.33
MAXTOR (9)	315.9	45	591.8	24	–13.8	NM	–12.7	NM	NM	NM	NM	NM	–1.66
SEAGATE TECHNOLOGY (6)	1292.3	29	2476.9	30	88.0	11	158.3	8	6.8	7.9	18.3	12	3.52
SILICON GRAPHICS (6)	653.2	51	1276.9	48	52.7	14	129.1	63	8.1	10.7	20.1	32	1 28
STORAGE TECHNOLOGY	480.7	14	930.9	14	11.9	–25	2.9	NM	2.5	3.7	3.0	29	0.85
SUN MICROSYSTEMS (6)	1648.1	17	3153.1	21	128.2	65	235.8	74	7.8	5.6	16.8	12	3.61
TANDEM COMPUTERS (3)	594.4	9	1110.4	8	30.8	–36	52.5	–29	5.2	8.9	14.6	9	1.36
3COM (7)	384.9	59	723.6	57	47.6	75	92.9	NM	12.4	11.3	27.0	41	1.73
UNISYS	1495.8	4	2902.9	6	39.8	75	71.9	25	2.7	1.6	–5.5	NM	–0.33
WESTERN DIGITAL (6)	585.0	27	1114.3	26	26.4	–29	46.0	–30	4.5	8.1	26.0	7	2.56
(C) COMPUTER SOFTWARE & SERVICES													
GROUP COMPOSITE	**11691.2**	**27**	**22876.8**	**26**	**1411.0**	**41**	**2678.0**	**28**	**12.1**	**10.9**	**21.6**	**33**	**1.54**
ADOBE SYSTEMS (1)	168.0	12	336.6	18	33.9	96	68.3	88	20.2	11.6	6.7	NM	0.55
BAY NETWORKS (6)	390.7	35	727.8	31	54.4	56	100.4	50	13.9	12.1	19.7	38	1.10
CABLETRON SYSTEMS (10)	240.8	33	466.7	34	48.3	34	93.8	35	20.1	20.0	27.3	22	2.45
CERIDIAN	253.5	16	511.3	16	22.0	34	50.4	31	8.7	7.5	36.9	24	1.67
CISCO SYSTEMS (5)	509.9	54	964.8	52	125.0	48	178.5	10	24.5	25.5	31.1	39	1.35
COMDISCO (3)	539.0**	9	1132.0	11	26.0	8	52.0	8	4.8	4.9	7.6	22	1.39
COMPUTER ASSOCIATES INTERNATIONAL (9)	577.5	21	1379.4	24	88.5	NM	301.5	312	15.3	NM	38.4	19	3.62
COMPUTER SCIENCES (9)	966.8	31	1984.8	35	27.7	27	67.0	23	2.9	3.0	10.2	26	2.16
ELECTRONIC DATA SYSTEMS	2962.1**	27	5747.1	26	226.9	15	423.7	15	7.7	8.5	19.9	24	1.83
FIRST DATA	502.6	23	940.1	20	57.9	25	108.2	20	11 5	11.4	14 9	28	2.00
FISERV	173.5	24	330.6	18	12.0	19	23.2	19	6.9	7.2	8.4	26	1.04
GTECH HOLDINGS (10)	179.4	5	365.3	12	18.3	1	25.8	–28	10.2	10.7	20.8	24	1.20
INFORMIX	163.6	55	311.4	54	22.1	67	41.2	60	13.5	12.5	24.7	47	0.60
MICROSOFT (6)	1621.0	25	3208.0	26	368.0	2	764.0	24	22.7	28.0	27.2	40	2.32
NOVELL (2)	529.5	17	1022.7	8	95.9	45	177.4	11	18.1	14.5	11.2	35	0.53
ORACLE (7)	1017.9	52	1740.1	51	181.7	59	286.5	55	17.8	17.1	36.4	38	1.00
SAFEGUARD SCIENTIFICS	370.6	7	713.7	6	4.8	25	8.3	17	1.3	1.1	14.5	25	1.64
SYBASE	240.0	26	456.3	29	–9.2	NM	–26.6	NM	NM	9.4	5.2	68	0.50
WANG LABORATORIES (6)	284.9	37	538.0	30	6.7	158	–65.5	NM	2.4	1.3	–30.8	NM	–2.02
19 PAPER & FOREST PRODUCTS													
INDUSTRY COMPOSITE	**28534.6**	**26**	**54601.8**	**25**	**2166.2**	**229**	**3826.0**	**220**	**7.6**	**2.9**	**15.3**	**15**	**3.23**
(A) FOREST PRODUCTS													
GROUP COMPOSITE	**7391.1**	**16**	**14312.4**	**17**	**554.2**	**334**	**1024.0**	**245**	**7.5**	**2.0**	**19.5**	**11**	**4.27**
BOISE CASCADE	1270.2	27	2493.2	28	105.9	NM	163.0	NM	8.3	NM	10.9	23	1.88
GEORGIA-PACIFIC	3700.0	16	7177.0	17	265.0	NM	497.0	610	7.2	0.4	26.5	10	8.41
LOUISIANA-PACIFIC	709.3	–8	1396.1	–5	26.3	–68	80.6	–52	3.7	10.6	15.5	11	2.38
POPE & TALBOT	159.0	1	332.1	2	–9.0	NM	–10.2	NM	NM	1.8	–2.6	NM	–0.43
RAYONIER	313.6	25	599.4	18	26.3	86	51.4	44	8.4	5 6	12.7	13	2.87
UNIVERSAL FOREST PRODUCTS	235.4	–17	410.4	–11	5.3	24	8.8	32	2.3	1.5	17.3	12	0.73
WILLAMETTE INDUSTRIES	1003.5	38	1904.2	35	134.3	352	233.4	273	13.4	4.1	23.7	10	6.33
(B) PAPER													
GROUP COMPOSITE	**21143.5**	**30**	**40289.4**	**28**	**1612.1**	**204**	**2802.0**	**212**	**7.6**	**3.3**	**14.1**	**16**	**2.95**
BOWATER	486.8	52	936.3	49	59.8	NM	104.9	NM	12.3	NM	16.6	16	2.97
CHAMPION INTERNATIONAL	1756.4	41	3390.5	37	187.5	NM	318.8	NM	10.7	NM	13.5	13	4.47
CHESAPEAKE	315.1	33	606.2	35	18.5	278	39.3	470	5.9	2.1	17.1	11	2.92
CONSOLIDATED PAPERS	336.6	44	645.6	39	48.6	108	89.2	131	14.4	10.0	13.6	19	3.10
FORT HOWARD	412.1	31	779.5	32	7.6	NM	–1.9	NM	1.8	NM	NM	NM	–3.58
GLATFELTER (P. H.)	166.9	45	321.9	42	19.0	761	31.5	643	11.4	1.9	–30.2	NM	–2.05
INTERNATIONAL PAPER	5100.0	42	9600.0	37	316.0	247	562.0	237	6.2	2.5	12.1	13	6.56
JAMES RIVER CORP. OF VIRGINIA	1812.1	51	3449.4	50	41.8	224	63.9	NM	2.3	1.1	–0.9	NM	–0.17
KIMBERLY-CLARK	2152.0	17	4166.6	15	163.3	8	272.0	–5	7.6	8.2	19.7	19	3.24
MANVILLE	720.3	13	1361.9	17	33.5	62	62.8	124	4.7	3.2	8.2	21	0.61
MEAD	1442.2	24	2683.0	23	102.2	129	163.9	170	7.1	3.8	9.6	17	3.42
POTLATCH	397.2	15	791.9	11	23.9	295	47.4	317	6.0	1.8	9.1	15	2.91
SCOTT PAPER	1057.5	16	2060.8	18	145.5	189	242.4	208	13.8	5.5	23.7	16	2.84
UNION CAMP	1109.3	34	2130.4	32	133.2	414	238.2	541	12.0	3.1	16.6	12	4.54
WESTVACO (2)	804.6	28	1546.3	28	65.0	299	114.3	256	8.1	2.6	9.5	16	2.77
WEYERHAEUSER	3074.3	18	5819.3	17	246.7	91	453.3	77	8.0	5.0	17.8	12	3.83

ORPORATE SCOREBOARD

MPANY	SALES 2ND QUARTER 1995 $ MIL	CHANGE FROM 1994 %	SALES 6 MONTHS 1995 $ MIL	CHANGE FROM 1994 %	PROFITS 2ND QUARTER 1995 $ MIL	CHANGE FROM 1994 %	PROFITS 6 MONTHS 1995 $ MIL	CHANGE FROM 1994 %	MARGINS 2ND QUARTER 1995 %	MARGINS 2ND QUARTER 1994 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 6 30	PRICE-EARNINGS RATIO 7-21	12 MONTHS' EARNINGS PER SHARE
O PUBLISHING & BROADCASTING													
OUSTRY COMPOSITE	**15182.6**	**16**	**29377.4**	**18**	**1096.8**	**–19**	**1822.1**	**25**	**7.2**	**10.3**	**13.0**	**24**	**2.17**
BROADCASTING													
OUP COMPOSITE	**5573.8**	**33**	**10929.8**	**40**	**334.9**	**–43**	**600.6**	**80**	**6.0**	**13.9**	**8.8**	**26**	**2.66**
PITAL CITIES/ABC	1648.7	7	3255.5	11	208.9	10	366.6	20	12.7	12.3	16.7	21	4.81
S	889.6	1	1786.7	–16	51.9	–53	73.7	–59	5.8	12.4	56.0	29	2.58
LTIMEDIA	170.3	7	326.8	7	21.2	9	36.0	–2	12.4	12.2	NM	18	2.32
COM	2865.2	78	5560.8	127	53.0	–80	124.2	NM	1.9	16.5	3.3	34	1.46
PUBLISHING													
OUP COMPOSITE	**9608.8**	**8**	**18447.6**	**9**	**761.8**	**0**	**1221.5**	**8**	**7.9**	**8.6**	**17.2**	**23**	**1.99**
O (A. H.)	189.8	22	352.8	23	21.2	9	32.6	10	11.2	12.6	18.7	16	1.80
N JONES	577.0	10	1122.4	10	49.3	7	95.7	7	8.5	8.8	12.4	19	1.93
N & BRADSTREET	1307.0	10	2526.6	11	146.2	1	255.1	1	11.2	12.2	47.6	14	3.71
NNETT	1013.9	5	1927.7	5	139.4	6	225.6	7	13.8	13.6	25.7	16	3.42
GHT-RIDDER	687.5	4	1362.1	5	94.1	88	129.8	61	13.7	7.6	20.2	13	4.22
GRAW-HILL	712.8	10	1281.3	6	52.8	10	66.8	6	7.4	7.4	22.7	18	4.17
DIA GENERAL	173.5	12	338.6	11	13.2	–86	25.9	–73	7.6	60.1	13.5	18	1.74
W YORK TIMES	610.4	–4	1181.6	–4	43.3	26	70.6	36	7.1	5.4	15.0	11	2.30
HOLASTIC (7)	228.8	20	408.8	20	14.5	35	22.4	31	6.3	5.6	16.6	25	2.38
RIPPS (E. W.)	329.1	7	641.3	8	.36.1	–24	65.3	–11	11.0	15.5	10.4	22	1.45
IE WARNER	1907.0	14	3724.0	15	–8.0	NM	–55.0	NM	NM	NM	–7.9	NM	–0.24
IES MIRROR	843.3	4	1617.3	5	26.0	–19	41.1	4	3.1	4.0	5.8	34	0.86
BUNE	591.8	4	1124.6	7	82.1	–3	150.1	20	13.9	14.9	19.7	17	3.75
SHINGTON POST	437.0	8	838.5	10	51.5	25	95.4	36	11.8	10.2	17.8	16	17.22
SERVICE INDUSTRIES													
OUSTRY COMPOSITE	**25595.9**	**16**	**49893.4**	**16**	**1119.1**	**20**	**2072.0**	**17**	**4.4**	**4.2**	**15.7**	**19**	**1.64**
CONSTRUCTION & ENGINEERING													
OUP COMPOSITE	**4571.9**	**15**	**8824.9**	**14**	**116.4**	**33**	**215.6**	**46**	**2.5**	**2.2**	**11.1**	**25**	**1.40**
DGEE ENTERPRISES (10)	219.0	22	424.4	18	3.5	34	5.9	NM	1.6	1.5	11.2	17	1.04
M INTERNATIONAL	213.1	22	405.0	19	3.9	29	7.2	22	1.8	1.7	32.3	17	1.41
TLER MFG.	206.8	18	401.6	37	6.2	22	9.8	166	3.0	2.9	25.9	9	2.85
&G	342.3	4	680.5	4	12.3	38	21.7	29	3.6	2.7	–6.2	NM	–0.48
OR (2)	2229.3	7	4288.9	4	55.3	16	105.6	15	2.5	2.3	15.8	23	2.48
STER WHEELER	686.2**	18	1329.9	26	18.9	13	36.8	15	2.8	2.9	14.9	18	1.96
OBS ENGINEERING GROUP (3)	444.6	69	841.4	57	8.4	16	16.0	9	1.9	2.8	9.2	28	0.80
ONE & WEBSTER	230.7	22	453.2	19	7.9	NM	12.7	NM	3.4	NM	5.7	21	1.48
INDUSTRIAL DISTRIBUTION													
OUP COMPOSITE	**9317.2**	**15**	**18690.4**	**14**	**387.3**	**24**	**852.5**	**22**	**4.2**	**3.9**	**15.6**	**18**	**1.84**
GAS (9)	194.3	22	383.7	25	9.5	39	18.9	43	4.9	4.3	18.0	27	1.05
ROW ELECTRONICS	1458.2	31	2898.6	30	51.8	57	96.6	46	3.6	3.0	15.7	17	3.03
STLE (A. M.)	163.1	24	332.1	25	6.8	104	15.1	116	4.2	2.5	26.4	9	2.12
LLSTAR (1)	177.8	64	368.6	83	5.2	31	10.3	60	2.9	3.7	23.5	27	1.09
EMED	177.3	10	347.2	11	5.3	20	10.7	39	3.0	2.7	9.2	19	1.77
ANE	451.5	5	884.1	16	20.1	28	33.4	45	4.5	3.7	19.4	17	2.19
RON	2100.0	11	4500.0	3	94.0	24	289.0	16	4.5	4.0	16.5	18	1.97
NUINE PARTS	1308.7	7	2589.9	9	74.9	6	144.0	8	5.7	5.8	19.1	15	2.42
TTY PETROLEUM (11)	195.0	14	398.5	12	1.7	68	8.0	1	0.9	0.6	7.6	19	0.60
AINGER (W. W.)	813.5	6	1620.3	10	39.5	–7	86.4	3	4.9	5.5	12.2	22	2.55
GHES SUPPLY (11)	233.8	27	439.1	24	2.5	47	5.3	44	1.0	0.9	8.1	12	1.85
MAN	221.9	6	432.0	6	4.7	1	10.2	16	2.1	2.2	–10.4	NM	–0.10
RSHALL INDUSTRIES (7)	280.8	25	542.4	28	12.2	32	22.3	31	4.3	4.1	15.1	14	2.32
NEER-STANDARD ELECTRONICS (9)	224.7	22	466.2	36	6.8	14	14.1	23	3.0	3.2	19.4	14	1.69
EMIER INDUSTRIAL (7)	220.1	10	418.5	11	31.0	13	55.5	15	14.1	13.7	22.8	19	1.28
KEL	288.7	9	567.5	11	4.9	74	9.2	100	1.7	1.1	10.5	17	0.57
IVAR (10)	552.9	10	996.7	9	7.8	419	8.2	544	1.4	0.3	–5.7	NM	–0.46
LE ELECTRONICS	254.9	36	504.9	39	8.8	164	15.5	185	3.4	1.8	14.4	17	1.93
POLLUTION CONTROL													
OUP COMPOSITE	**2856.0**	**12**	**5460.9**	**13**	**219.1**	**8**	**320.4**	**–12**	**7.7**	**8.0**	**15.9**	**20**	**1.52**
MX TECHNOLOGIES	2856.0	12	5460.9	13	219.1	8	320.4	–12	7.7	8.0	15.9	20	1.52
PRINTING & ADVERTISING													
OUP COMPOSITE	**2556.4**	**24**	**4822.1**	**22**	**150.2**	**13**	**226.0**	**12**	**5.9**	**6.5**	**15.4**	**20**	**1.77**
VO (3)	273.2	7	527.5	9	9.2	3	12.0	6	3.4	3.5	24.8	14	1.24
NTA	235.3	27	468.3	25	12.8	7	23.8	10	5.4	6.4	14.5	14	2.44
NNELLEY (R. R.) & SONS	1490.6	33	2808.7	28	64.5	11	111.3	10	4.3	5.2	13.9	21	1.82
ERPUBLIC GROUP	557.2**	12	1017.6	11	63.8	18	78.9	18	11.4	10.9	18.3	22	1.65

CORPORATE SCOREBOARD

COMPANY	SALES 2ND QUARTER 1995 $ MIL	CHANGE FROM 1994 %	SALES 6 MONTHS 1995 $ MIL	CHANGE FROM 1994 %	PROFITS 2ND QUARTER 1995 $ MIL	CHANGE FROM 1994 %	PROFITS 6 MONTHS 1995 $ MIL	CHANGE FROM 1994 %	MARGINS 2ND QUARTER 1995 %	MARGINS 2ND QUARTER 1994 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 6-30	PRICE-EARNINGS RATIO 7-21	12 MONTHS' EARNINGS PER SHARE
(E) OTHER SERVICES													
GROUP COMPOSITE	**6294.4**	**19**	**12095.1**	**19**	**246.0**	**26**	**457.6**	**27**	**3.9**	**3.7**	**18.8**	**17**	**1.54**
ABM INDUSTRIES (2)	234.4**	9	466.5	9	3.9	19	7.3	19	1.7	1.5	12.1	14	1.73
CDI	332.1	25	651.1	27	7.8	74	14.9	77	2.3	1.7	19.8	14	1.46
CINTAS (7)	170.3	20	321.5	19	17.9	20	33.2	18	10.5	10.6	17.7	28	1.34
HANDLEMAN (8)	303.5	21	666.4	21	0.5	–89	11.6	–22	0.2	2.0	8.9	12	0.84
INACOM	526.9	29	1010.9	25	2.6	NM	4.7	NM	0.5	NM	5.5	20	0.75
MANPOWER	1371.1	39	2570.7	43	28.2	65	46.4	98	2.1	1.7	52.5	20	1.42
MID ATLANTIC MEDICAL SERVICES	235.5**	30	456.5	26	13.8	16	30.7	21	5.9	6.5	36.8	14	1.26
NORRELL (2)	196.7	18	382.8	19	4.0	41	7.8	–7	2.0	1.7	23.4	18	1.29
OLSTEN	601.7**	7	1177.2	7	21.0	28	39.7	29	3.5	2.9	19.6	18	1.87
PHH (8)	546.0	2	1040.2	–1	20.8	14	37.5	12	3.8	3.4	13.7	11	4.15
ROLLINS	175.4	2	318.0	3	21.1	0	28.9	3	12.0	12.3	25.6	17	1.42
SAFETY-KLEEN	203.2	11	397.8	10	12.1	6	24.2	14	6.0	6.3	13.1	17	0.92
SERVICE CORP. INTERNATIONAL	353.6	35	701.8	34	40.6	35	88.0	30	11.5	11.5	12.0	21	1.63
SERVICEMASTER	852.8	8	1560.6	8	50.2	24	79.0	22	5.9	5.1	41.3	14	1.97
VOLT INFORMATION SCIENCES (2)	191.2**	11	373.3	18	1.4	–75	3.5	–10	0.7	3.4	12.4	13	2.43
22 TELECOMMUNICATIONS													
INDUSTRY COMPOSITE	**51255.7**	**7**	**100045.3**	**6**	**5140.1**	**–3**	**9918.1**	**6**	**10.0**	**11.0**	**20.9**	**17**	**2.69**
(A) EQUIPMENT & SERVICES													
GROUP COMPOSITE	**24888.0**	**9**	**48239.9**	**9**	**1832.5**	**–14**	**3420.4**	**–3**	**7.4**	**9.3**	**20.6**	**20**	**2.33**
AIRTOUCH COMMUNICATIONS†	395.1	32	762.3	32	38.7	17	74.0	22	9.8	11.0	3.2	NM	0.23
ALC COMMUNICATIONS	197.2	45	375.0	41	20.2	36	40.2	36	10.3	10.9	55.9	25	1.95
AT&T	19512.0	7	37774.0	7	1355.0	9	2553.0	10	6.9	6.8	25.5	17	3.13
COMSAT	210.8	1	418.7	3	22.0	2	36.6	-13	10.4	10.4	8.6	14	1.52
DSC COMMUNICATIONS	360.0	57	678.0	58	52.0	43	93.9	42	14.4	15.8	21.0	30	1.63
LIN BROADCASTING	217.9	–1	417.1	1	24.4	–95	37.1	–92	11.2	NM	35.0	60	2.10
SPRINT	3365.6	7	6637.1	7	245.7	12	470.0	5	7.3	7.0	18.7	13	2.59
TELEPHONE & DATA SYSTEMS†	232.1	34	442.1	33	22.6	58	45.8	87	9.7	8.3	5.0	27	1.40
TELLABS	159.9	30	302.2	36	27.1	59	50.1	77	17.0	13.8	28.8	43	1.04
U. S. ROBOTICS (3)	237.3	75	433.5	68	24.9	126	19.9	–6	10.5	8.1	18.5	53	2.14
(B) TELEPHONE COMPANIES													
GROUP COMPOSITE	**26367.7**	**5**	**51805.5**	**4**	**3307.6**	**4**	**6497.7**	**11**	**12.5**	**12.7**	**21.0**	**15**	**2.93**
ALLTEL	786.5	8	1550.1	7	98.1	29	176.7	19	12.5	10.5	17.7	16	1.58
AMERITECH	3368.9	6	6514.6	5	503.5	13	1082.4	121	14.9	14.0	27.2	15	3.20
BELL ATLANTIC	3564.5	4	7014.2	2	447.1	8	861.6	6	12.5	12.1	23.9	17	3.32
BELLSOUTH	4390.3	6	8689.0	5	556.9	8	1104.0	0	12.7	12.5	17.9	15	4.35
CINCINNATI BELL	334.1	11	665.9	13	27.0	44	–32.6	NM	8.1	6.2	1.8	NM	0.14
FRONTIER	311.8	10	595.2	7	32.9	–14	64.5	1	10.5	13.5	14.1	17	1.49
GTE	5045.0	2	9807.0	1	582.0	–2	1127.0	3	11.5	12.0	23.2	14	2.57
PACIFIC TELESIS GROUP	2231.0	–2	4485.0	–2	260.0	–6	542.0	–3	11.7	12.2	20.9	10	2.64
SBC COMMUNICATIONS	2988.7	8	5866.4	8	442.0	15	837.2	13	14.8	13.9	21.0	17	2.89
SOUTHERN NEW ENGLAND TELECOMMS.	453.0**	6	896.1	5	40.1	–11	86.8	–2	8.9	10.6	17.9	12	2.72
US WEST	2894.0	7	5722.0	7	318.0	–15	648.0	–7	11.0	13.8	18.2	14	2.96
23 TRANSPORTATION													
INDUSTRY COMPOSITE	**40853.6**	**8**	**78932.6**	**8**	**1976.2**	**80**	**2663.8**	**89**	**4.8**	**2.9**	**11.5**	**20**	**2.14**
(A) AIRLINES													
GROUP COMPOSITE	**19439.8**	**6**	**36814.2**	**5**	**1006.4**	**NM**	**789.9**	**NM**	**5.2**	**NM**	**–12.9**	**NM**	**–0.28**
ALASKA AIR GROUP	362.2	10	656.8	8	7.0	–27	–9.3	NM	1.9	2.9	5.6	27	0.73
AMERICA WEST AIRLINES	399.9	NA	745.7	NA	20.9	NA	26.1	NA	5.2	NA	NA	NA	NA
AMR	4307.0	5	8277.0	5	192.0	26	230.0	58	4.5	3.7	8.6	13	5.99
CONTINENTAL AIRLINES	1478.6	6	2886.9	5	102.0	NM	71.8	NM	6.9	NM	NM	NM	–16.84
DELTA AIR LINES (6)	3216.0	3	6118.0	2	251.0	NM	240.0	NM	7.8	NM	12.9	19	4.07
NORTHWEST AIRLINES	2279.4	9	4322.4	8	104.8	47	107.4	20	4.6	3.4	NM	11	3.52
SOUTHWEST AIRLINES	738.2	12	1359.2	6	59.7	2	71.6	–29	8.1	8.9	12.0	25	1.03
TRANS WORLD AIRLINES	860.5	–3	1552.8	–6	5.2	NM	–117.6	NM	0.6	NM	NM	NM	–19.30
UAL	3815.0	9	7149.0	7	151.0	175	154.0	NM	4.0	1.6	NM	13	11.41
USAIR GROUP	1983.1	6	3746.4	5	112.9	717	16.0	NM	5.7	0.7	NM	NM	–9.36
(B) RAILROADS													
GROUP COMPOSITE	**9683.6**	**6**	**18950.8**	**7**	**701.0**	**–17**	**1385.5**	**–6**	**7.2**	**9.3**	**16.4**	**15**	**3.53**
BURLINGTON NORTHERN	1284.0	8	2631.0	10	130.0	59	238.0	41	10.1	6.9	23.2	13	5.24
CONRAIL	923.0	–3	1812.0	1	123.0	22	178.0	158	13.3	10.6	14.0	12	5.30
CSX	2600.0	10	5068.0	10	19.0	–88	140.0	-41	0.7	6.8	14.6	16	5.30
NORFOLK SOUTHERN	1190.2**	2	2328.9	4	181.2	2	351.9	9	15.2	15.4	14.7	14	5.24
SANTA FE PACIFIC	671.9	2	1351.6	5	47.8	–1	70.1	–32	7.1	7.4	32.4	30	0.92
SOUTHERN PACIFIC RAIL	804.5	0	1571.3	1	–24.0	NM	–7.5	NM	NM	6.0	16.4	17	1.14
UNION PACIFIC	2210.0	11	4188.0	9	224.0	–2	415.0	–19	10.1	11.5	16.5	14	4.18

ORPORATE SCOREBOARD

MPANY	SALES 2ND QUARTER 1995 $ MIL	CHANGE FROM 1994 %	SALES 6 MONTHS 1995 $ MIL	CHANGE FROM 1994 %	PROFITS 2ND QUARTER 1995 $ MIL	CHANGE FROM 1994 %	PROFITS 6 MONTHS 1995 $ MIL	CHANGE FROM 1994 %	MARGINS 2ND QUARTER 1995 %	MARGINS 2ND QUARTER 1994 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 6-30	PRICE-EARNINGS RATIO 7-21	12 MONTHS' EARNINGS PER SHARE
TRANSPORTATION SERVICES													
OUP COMPOSITE	**6174.4**	**11**	**12090.8**	**14**	**224.0**	**9**	**385.3**	**22**	**3.6**	**3.7**	**13.2**	**12**	**2.71**
BORNE FREIGHT	545.9	13	1075.9	13	2.3	–83	4.1	–79	0.4	2.7	5.8	18	1.07
ALL	221.2	2	433.4	5	2.3	105	4.0	66	1.1	0.5	3.4	15	0.57
ERAL EXPRESS (7)	2469.6	9	4802.2	11	87.2	8	150.3	34	3.5	3.6	13.9	12	5.27
X	314.2**	10	602.4	11	29.9	43	55.6	35	9.5	7.3	13.7	11	4.59
NSTOWN AMERICA INDUSTRIES	166.7	36	345.2	60	3.4	652	6.4	219	2.0	0.4	15.2	10	1.03
STON SERVICES GROUP	527.6**	15	1030.9	19	20.0	–6	33.6	6	3.8	4.7	17.5	11	2.16
ER SYSTEM	1324.4	13	2557.9	14	51.5	3	78.1	6	3.9	4.2	13.8	12	2.00
ITY INDUSTRIES (9)	604.7	11	1242.9	25	27.5	49	53.2	58	4.5	3.4	15.3	14	2.40
TRUCKING & SHIPPING													
OUP COMPOSITE	**5555.8**	**17**	**11077.0**	**14**	**44.8**	**62**	**103.1**	**8**	**0.8**	**0.6**	**7.5**	**21**	**1.17**
XANDER & BALDWIN	270.3**	–2	516.0	0	3.5	–81	9.5	–71	1.3	6.6	7.4	23	1.01
RICAN PRESIDENT	674.3**	3	1415.0	4	14.2	–25	15.3	–48	2.1	2.9	9.9	14	1.91
ANSAS BEST	312.1	48	623.3	31	1.7	NM	6.8	215	0.5	NM	8.6	11	0.98
SOLIDATED FREIGHTWAYS	1320.6	25	2616.7	21	22.2	327	46.4	127	1.7	0.5	10.4	13	1.77
IT (J. B.) TRANSPORT SERVICES	329.2	11	638.6	14	–2.1	NM	2.8	–84	NM	3.9	6.8	27	0.67
DSTAR SYSTEM	308.1	23	603.9	32	7.8	18	12.6	27	2.5	2.6	24.6	15	2.11
DWAY SERVICES	1097.4	18	2184.4	12	–2.0	NM	3.8	NM	NM	NM	2.9	66	0.75
FREIGHTWAYS	287.2	30	566.1	20	9.8	124	17.9	74	3.4	2.0	19.0	12	1.85
RLDWAY	182.8	–31	374.2	–18	–11.4	NM	–16.2	NM	NM	3.7	–12.4	NM	–2.28
LOW	773.8	31	1538.8	15	1.0	NM	4.2	NM	0.1	NM	6.3	16	1.02
UTILITIES & POWER													
USTRY COMPOSITE	**41899.1**	**3**	**87588.5**	**0**	**3827.2**	**15**	**8725.2**	**9**	**9.1**	**8.2**	**11.5**	**12**	**2.02**
ELECTRIC, WATER & COGENERATION													
OUP COMPOSITE	**36849.9**	**2**	**75710.0**	**–1**	**3579.2**	**15**	**7847.7**	**9**	**9.7**	**8.6**	**11.6**	**12**	**2.04**
	167.3	23	338.0	29	26.5	3	51.3	10	15.8	18.9	24.0	14	1.37
EGHENY POWER SYSTEM	603.1	7	1303.1	4	48.1	8	129.6	4	8.0	7.9	10.7	12	1.88
ERICAN ELECTRIC POWER	1305.0	–3	2721.2	–4	110.5	–6	272.4	–4	8.5	8.7	11.4	13	2.63
TIMORE GAS & ELECTRIC	642.5	–1	1357.8	–4	50.9	–24	121.7	–18	7.9	10.2	9.4	14	1.74
OLINA POWER & LIGHT	682.0	–1	1410.2	–2	56.0	–4	154.0	5	8.2	8.5	11.8	14	2.10
TERIOR ENERGY	606.9	2	1194.5	1	59.8	3	113.6	4	9.9	9.7	11.2	7	1.41
TRAL & SOUTH WEST	920.0	1	1579.0	–10	107.0	0	151.0	–3	11.6	11.8	12.9	12	2.04
TRAL MAINE POWER	202.6	–5	465.9	3	–8.6	NM	17.8	–34	NM	7.2	–8.4	NM	–1.31
SCO	183.9	–9	394.4	–8	13.9	–32	27.4	–22	7.5	10.1	11.8	13	2.23
S ENERGY	837.0	5	1956.0	1	40.0	8	133.0	13	4.8	4.6	16.3	11	2.18
SOLIDATED EDISON CO. OF N. Y.	1459.9	5	3128.6	1	76.4	–12	277.4	0	5.2	6.3	13.0	10	2.98
TEC ENERGY	207.6	15	372.5	4	7.8	–73	15.0	–69	3.7	15.6	10.2	11	1.30
ROIT EDISON	856.0	–2	1736.2	–2	91.6	5	205.0	2	10.7	10.0	11.8	11	2.72
MINION RESOURCES	1042.8	–6	2172.1	–5	89.8	–39	210.0	–30	8.6	13.2	8.6	16	2.25
	269.9	3	629.8	–1	34.8	–6	95.8	1	12.9	14.1	13.8	14	1.58
	285.9	–4	586.9	–3	37.3	8	79.8	9	13.0	11.6	12.8	12	2.08
E POWER	1000.6**	–3	2058.5	–1	137.5	7	338.8	12	13.7	12.4	13.5	13	3.06
RIDA PROGRESS	742.9	7	1446.1	9	57.7	3	106.8	12	7.8	8.1	11.2	13	2.35
GROUP	1466.7	2	2644.1	1	148.2	9	257.9	7	10.1	9.4	12.8	13	3.04
ERAL PUBLIC UTILITIES	864.6	–1	1778.6	–2	69.8	NM	154.2	NM	8.1	NM	11.4	11	2.62
VAIIAN ELECTRIC INDUSTRIES	319.9	12	626.2	14	20.6	6	40.2	22	6.4	6.8	11.6	13	2.80
INDUSTRIES	189.4	11	395.8	3	12.7	15	19.7	–26	6.7	6.5	10.2	11	2.08
LCO ENTERPRISES	159.7	–1	335.2	–2	18.7	10	45.4	–6	11.7	10.5	11.2	13	2.39
ISAS CITY POWER & LIGHT	205.3	–8	404.2	–4	18.7	–25	41.6	20	9.1	11.1	12.4	13	1.74
E ENERGY	249.1	29	457.2	5	26.3	12	47.6	874	10.5	12.2	12.9	13	3.00
G ISLAND LIGHTING	653.8	4	1445.0	–4	41.4	67	111.7	18	6.3	4.0	11.1	7	2.25
NTANA POWER	205.5	0	467.8	–3	7.6	–29	41.9	–16	3.7	5.2	10.1	12	1.83
VADA POWER	173.3	–11	318.5	–6	13.4	–42	18.0	–36	7.7	11.8	9.4	13	1.52
V ENGLAND ELECTRIC SYSTEM	533.5	3	1091.9	0	35.7	0	85.5	–20	6.7	6.9	11.2	12	2.74
V YORK STATE ELECTRIC & GAS	439.9	13	1011.8	6	24.6	99	100.2	3	5.6	3.2	10.0	9	2.40
GARA MOHAWK POWER	938.8	–4	2063.7	–7	54.5	–19	173.2	–16	5.8	6.9	4.5	20	0.72
RTHEAST UTILITIES	840.3	–2	1785.0	–2	56.5	–22	156.8	–12	6.7	8.4	11.0	11	2.07
RTHERN STATES POWER	589.7	1	1250.9	–1	59.8	13	128.0	8	10.1	9.1	12.5	12	3.59
D EDISON	593.8	1	1181.6	0	78.2	3	151.0	4	13.2	12.9	12.4	11	2.01
NGE & ROCKLAND UTILITIES	245.4	7	557.2	7	3.7	10	19.0	9	1.5	1.5	9.2	13	2.61
IFIC GAS & ELECTRIC	2447.7	0	4755.1	–4	405.5	68	734.2	54	16.6	9.9	13.9	10	2.81
O ENERGY	985.6	4	2017.2	–3	158.6	37	315.6	15	16.1	12.2	9.8	14	1.94
NACLE WEST CAPITAL	393.2	–5	739.3	–4	47.0	–16	76.5	–10	12.0	13.5	11.1	11	2.26
TLAND GENERAL	219.9	9	479.1	0	35.0	74	35.6	–43	15.9	10.0	7.9	17	1.33
L RESOURCES	609.2	–5	1336.7	–5	51.7	–4	159.9	–5	8.5	8.4	8.3	14	1.34
BLIC SERVICE CO. OF COLORADO	498.7	4	1119.3	3	28.3	18	81.9	16	5.7	5.0	13.0	11	2.72
BLIC SERVICE ENTERPRISE GROUP	1324.1	4	2997.9	–2	122.9	–12	347.7	–9	9.3	11.0	12.1	10	2.62
GET SOUND POWER & LIGHT	261.6	–1	599.9	1	22.9	29	71.6	11	8.7	6.7	9.4	12	1.75
HESTER GAS & ELECTRIC	219.5	1	500.7	–5	14.9	55	45.4	4	6.8	4.4	9.0	11	1.81

CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS		RETURN ON COMMON EQUITY 12 MONTHS ENDING 6-30	PRICE-EARNINGS RATIO 7-21	12 MONTHS' EARNINGS PER SHARE
	2ND QUARTER 1995 $ MIL	CHANGE FROM 1994 %	6 MONTHS 1995 $ MIL	CHANGE FROM 1994 %	2ND QUARTER 1995 $ MIL	CHANGE FROM 1994 %	6 MONTHS 1995 $ MIL	CHANGE FROM 1994 %	2ND QUARTER 1995 %	2ND QUARTER 1994 %			
SAN DIEGO GAS & ELECTRIC	445.2	0	936.9	–1	49.9	101	111.7	32	11.2	5.6	14.8	11	1.96
SCANA	311.1	5	655.9	2	17.0	–46	69.7	–18	5.5	10.7	9.6	20	1.05
SCECORP	1860.8	–1	3682.9	2	172.1	13	337.9	15	9.2	8.1	11.7	10	1.61
SOUTHERN	2184.0	6	4113.0	3	290.5	5	519.2	18	13.3	13.4	12.7	14	1.62
SOUTHWESTERN PUBLIC SERVICE (4)	205.2	5	574.3	–2	26.4	34	66.3	5	12.9	10.1	14.6	12	2.45
TECO ENERGY	349.7	–1	668.8	1	47.3	11	84.7	10	13.5	12.1	14.7	16	1.38
TUCSON ELECTRIC POWER	162.3	–5	305.1	–4	3.0	–32	–11.9	NM	1.9	2.6	NM	26	0.12
UNICOM	1559.5	9	3137.7	6	125.8	NM	231.3	429	8.1	NM	10.2	11	2.52
UNION ELECTRIC	513.6	–4	960.7	–1	76.0	–22	114.3	–16	14.8	18.3	12.8	13	2.80
UNITED ILLUMINATING	163.4	7	328.8	2	7.8	21	17.2	–12	4.8	4.2	10.0	10	3.21
WASHINGTON WATER POWER	159.0	8	356.9	6	15.2	–3	43.6	3	9.5	10.7	10.0	12	1.28
WESTERN RESOURCES	333.4	–2	750.9	–15	21.7	–28	63.3	–34	6.5	8.9	9.5	13	2.28
WHEELABRATOR TECHNOLOGIES	370.0	15	743.3	23	53.0	9	96.6	9	14.3	15.1	13.3	16	1.03
WISCONSIN ENERGY	405.1	1	876.2	–4	51.9	19	114.7	71	12.8	10.9	12.8	13	2.10
WPL HOLDINGS	183.2	0	408.0	–3	7.8	–30	28.2	–26	4.2	6.1	9.2	16	1.79
(B) GAS, OIL & TRANSMISSION GROUP COMPOSITE	**5049.2**	**15**	**11878.5**	**5**	**248.0**	**18**	**877.5**	**8**	**4.9**	**4.8**	**10.3**	**15**	**1.82**
BROOKLYN UNION GAS (3)	217.7	–10	699.3	–11	–6.1	NM	67.5	2	NM	NM	10.3	13	1.86
EASTERN ENTERPRISES	198.9	4	565.8	0	7.1	41	37.7	11	3.6	2.6	10.9	14	2.11
EL PASO NATURAL GAS	185.2	–12	389.3	–10	20.2	–16	42.2	–7	10.9	11.4	12.5	11	2.44
EQUITABLE RESOURCES	316.5	0	721.2	–5	–1.2	NM	26.6	–37	NM	1.9	5.9	22	1.30
MCN	283.1	4	831.1	–11	4.7	29	68.7	–6	1.7	1.3	10.4	17	1.12
NATIONAL FUEL GAS (3)	191.5	–11	568.2	–18	7.8	–21	49.8	–7	4.1	4.5	9.3	14	2.05
NICOR	246.9	–8	856.7	–18	17.1	8	58.0	–14	6.9	5.9	14.4	13	1.94
ONEOK (4)	304.5	60	591.9	22	9.0	59	37.3	16	3.0	3.0	10.3	15	1.53
PANHANDLE EASTERN	1283.3	12	2515.4	10	67.5	20	151.6	25	5.3	4.9	12.2	14	1.72
PEOPLES ENERGY (3)	187.2	–9	611.6	–22	4.6	75	50.4	–1	2.4	1.3	8.8	15	1.72
PIEDMONT NATURAL GAS (2)	179.4	–12	381.9	–13	24.0	5	54.3	7	13.4	11.2	10.3	14	1.46
UTILICORP UNITED	328.5	5	792.3	–2	7.2	–3	39.4	–15	2.2	2.4	9.3	15	1.90
WICOR	179.2	–4	448.5	–11	2.7	171	27.5	–6	1.5	0.5	10.1	15	1.85
WILLIAMS	947.4	126	1905.4	136	83.3	44	166.5	69	8.8	13.8	9.1	15	2.27

ALPHABETICAL LIST OF COMPANIES

The number following each company name identifies the Scoreboard category under which it is listed

A

A&P 10c
Abbott Laboratories 12d
ABM Industries 21e
ACX Technologies 7b
Adobe Systems 18c
Advanced Micro 9d
ADVO 21d
AES 24a
Aetna Life & Casualty 17b
AFLAC 17b
Ahmanson (H.F.) 17c
Air Products & Chemicals 4
Airborne Freight 23c
Airgas 21b
AirTouch Communications 22a
AK Steel Holding 16b
Alaska Air Group 23a
Albany International 15d
Albemarle 4
Albertson's 10c
ALC Communications 22a
Alco Standard 5
Alcoa 16a
Alexander & Alexander 17a
Alexander & Baldwin 23d
Alex. Brown 17a
Alleghany 17a
Allegheny Ludlum 16b
Allegheny Power 24a
Allergan 12b
AlliedSignal 5
Allstate 17b
Alltel 22b
Alumax 16a
Amdahl 18b
Amerada Hess 11a
America West 23a
American Brands 6e
American Electric 24a
American Express 17a
American Greetings 14c
American Home 12b
American Intl. Group 17b
American Maize-Products 10b
American National 17b
American President 23d
American Standard 13a
American Stores 10c
Amentech 22b
Ames Dept. Stores 8
Ametek 9a
Amgen 12b
Amoco 11a
AMP 9d
Amphenol 9d
AMR 23a
AmSouth Bancorporation 3c
Analog Devices 9d
Andrew 9b
Anheuser-Busch 6c
AnnTaylor Stores 8
Antec 9b
Anthony Industries 14c
Apache 11a
Apogee Enterprises 21a
Apple Computer 18b
Applied Materials 15c
Arbor Drugs 12a
Arco Chemical 4
Arkansas Best 23d
Armco 16b
Armstrong World 6b
Arrow Electronics 21b
Arvin Industries 2b
Asarco 16c
Ashland 11a
AT&T 22a
Atlantic Richfield 11a
Automotive Industries 2b
AutoZone 8
Avery Dennison 15a
Aviall 23c
Avon Products 6d

B

Baker (J.) 8
Baker Hughes 11b
Ball 7a
Baltimore G&E 24a
Banc One 3b
Bancorp Hawaii 3d
Bandag 2c
Bank of Boston 3a
Bank of New York 3a
BankAmerica 3d
Bankers Trust 3a
Banta 21d
Bard (C.R.) 12d
Barnes & Noble 8
Bausch & Lomb 12d
Baxter International 12d
Bay Networks 18c
BayBanks 3a
BDM International 21a
Beckman Instruments 9c
Becton, Dickinson 12d
Bell & Howell Holdings 18a
Bell Atlantic 22b
BellSouth 22b
Belo (A.H.) 20b
Bemis 7b
Beneficial 17a
Bergen Brunswig 12a
Best Buy 6b
Best Products 8
Bethlehem Steel 16b
Beverly Enterprises 12c
Big B 12a
Bindley Western Inds. 12a
Black & Decker 15b
Block (H&R) 17a
Blount 15b
Boatmen's Bancshares 3b
Bob Evans Farms 14a
Boeing 1
Boise Cascade 19a
Borg-Warner Automotive 2b
Boston Scientific 12d
Bowater 19b
Bradlees 8
Brinker International 14a
Bristol-Myers Squibb 12b
Broadway Stores 8
Brooklyn Union Gas 24b
Brown Group 6a
Brown-Forman 6c
Brunswick 14c
Burlington Northern 23b
Burlington Resources 11a
Butler Mfg. 21a

C

Cabletron Systems 18c
Cabot 4
Caldor 8
Campbell Soup 10b
Canandaigua Wine 6c
Capital Cities/ABC 20a
Capital One Financial 17a
Cardinal Health 12a
Carlisle 15a
Carnival 14c
Carolina Power 24a
Carson Pirie Scott 8
Case 15c
Casey's General Stores 10c
Castle (A.M.) 21b
Caterpillar 15c
CBS 20a
CDI 21e
CellStar 21b
Centerior Energy 24a
Centex 13b
Central & South West 24a
Central Maine Power 24a
Ceridian 18c
Champion Enterprises 13b
Champion Intl. 19b
Charming Shoppes 8
Chase Manhattan 3a
Chemed 21b
Chemical Banking 3a
Chesapeake 19b
Chevron 11a
Chiquita Brands Intl. 10b
Chrysler 2a
Chubb 17b
Cincinnati Bell 22b
Cincinnati Milacron 15b
Cintas 21e
Cipsco 24a
Circuit City Stores 6b
Circus Circus 14b
Cirrus Logic 9d
Cisco Systems 18c
Citicorp 3a
CML Group 14c
CMS Energy 24a
Coastal 11a
Coca-Cola 6c
Coca-Cola Bottling 6c
Coca-Cola Enterprises 6c
Coleman 14c
Colgate-Palmolive 6d
Collins & Aikman 15d
Coltec Industries 15c
Comdisco 18c
Comerica 3b
Commercial Metals 16b
Commonwealth Aluminum 16c
Compaq Computer 18b
CompuCom Systems 18a
Computer Associates 18c
Computer Sciences 18c
Comsat 22a
ConAgra 10b
Cone Mills 15d
Conner Peripherals 18b
Conrail 23b
Conseco 17b
Consolidated Edison 24a
Cons. Freightways 23d
Consolidated Papers 19b
Consolidated Stores 8
Continental Airlines 23a
Cooper Industries 9a
Cooper Tire & Rubber 2c
Coors (Adolph) 6c
Corning 15a
Corporate Express 8
Countrywide Credit 17a
CPC International 10b
Cracker Barrel 14a
Crane 21b
Crestar Financial 3c
Crompton & Knowles 4
Crown Cork & Seal 7a
CSX 23b
CUC International 18a
Cummins Engine 2b
Cyprus Amax Minerals 16c
Cytec Industries 4

D

Dana 2b
Danaher 15b
Darden Restaurants 14a
Dayton Hudson 8
Dean Foods 10b
Dean Witter, Discover 17a
Deere 15c
Dell Computer 18b
Delta Air Lines 23a
Deluxe 18a
Destec Energy 24a
Detroit Diesel 2b
Detroit Edison 24a
Dexter 4
Dial 5
Diamond Shamrock 11a
Diebold 18a
Dillard 8
Disney (Walt) 14c
Dole Food 10b
Dollar General 8
Dominion Resources 24a
Donaldson 2b
Donnelley (R.R.) 21d
Dover 15c
Dow Chemical 4
Dow Jones 20b
DPL 24a
DQE 24a
Dresser Industries 15c
Drug Emporium 12a
DSC Communs. 22a
Duke Power 24a
Dun & Bradstreet 20b
DuPont 4

E

Eagle Food Centers 10c
Eagle-Picher Industries 2b
Eastern Enterprises 24b
Eastman Chemical 4
Eastman Kodak 14c
Eaton 2b
Echlin 2b
Eckerd 12a
Ecolab 6d
Edison Brothers 8
Edwards (A.G.) 17a
EG&G 21a
El Paso Natural Gas 24b
Electronic Data Systems 18c
EMC 18b

ALPHABETICAL LIST OF COMPANIES

The number following each company name identifies the Scoreboard category under which it is listed

Engelhard 4
Enron 21b
Enron Oil & Gas 11a
Equifax 17a
Equitable Resources 24b
Ethyl 4
Excel Industries 2b
Exxon 11a

F

Fabri Centers of America 8
Family Dollar Stores 8
Fannie Mae 17a
Fay's 12a
Federal Express 23c
Federal Home Loan 17a
Federal Paper Board 7b
Federal Signal 15a
Federal-Mogul 2b
Federated Dept. Stores 8
Ferro 4
Fieldcrest Cannon 15d
Fifth Third Bancorp 3b
Fina 11a
Fingerhut 8
Finova Group 17a
First American Finl. 17a
First Bank System 3b
First Chicago 3b
First Data 18c
First Fidelity 3a
First Financial Mgmt. 17a
First Interstate Bancorp 3d
First Mississippi 4
First of America Bank 3b
First Security 3d
First Union 3c
Firstar 3b
Fiserv 18c
Fleetwood Ents. 14c
Florida Progress 24a
Fluor 21a
FMC 15c
Food Lion 10c
Ford Motor 2a
Fort Howard 19b
Foster Wheeler 21a
FoxMeyer Health 5
FPL Group 24a
Freeport-McMoRan 16c
Freeport-McMoRan C&G 16c
Fremont General 17b
Fretter 6b
Frontier 22b
Fruit of the Loom 6a
Fuller (H.B.) 4

G

Gannett 20b
Gap 8
GATX 23c
Gaylord Container 7b
GenCorp 1
Genentech 12b
General Dynamics 1
General Electric 5
General Host 5
General Instrument 9b
General Mills 10b
General Motors 2a
General Nutrition 10c
General Public Uts. 24a
General Signal 9a
Geneva Steel 16b
Genovese Drug Stores 12a
Genuine Parts 21b
Geon 4
Georgia Gulf 4
Georgia-Pacific 19a
Getty Petroleum 21b
Giant Food 10c
Giddings & Lewis 15b
Gillette 6d
Glatfelter (P.H.) 19b
Glendale Federal Bank 17c
Golden West 17c
Good Guys 6b
Goodrich (B.F.) 4
Goodyear Tire & Rubber 2c
Goulds Pumps 15c
Grace (W.R.) 4
Grainger (W.W.) 21b
Great A&P 10c
Great Lakes Chemical 4
Great Western 17c
Greif Bros. 7b
Grossman's 8
GTE 22b
Gtech Holdings 18c
Guidant 12d
Guilford Mills 15d

H

Halliburton 11b
Handleman 21e
Hanna (M.A.) 4
Hannaford Brothers 10c
Harcourt General 5
Harley-Davidson 14c
Harnischfeger 15c
Harrah's Entertainment 14b
Harsco 15a
Hasbro 14c
Hawaiian Electric 24a
Hayes Wheels Intl. 2b
Health Care & Retirement 12c
Healthsouth 12c
Hechinger 8
Heilig-Meyers 6b
Heinz (H.J.) 10b
Helene Curtis Industries 6d
Hercules 4
Hershey Foods 10b
Hewlett-Packard 18b
Hillenbrand 15a
Hillhaven 12c
Hills Stores 8
Home Depot 8
Home Shopping 8
HON Industries 18a
Honeywell 9c
Horizon/CMS Healthcare 12c
Hormel Foods 10b
Household Intl. 17a
Hubbell 9a
Hudson Foods 10b
Huffy 14c
Hughes Electronics 9b
Hughes Supply 21b
Hunt (J.B.) 23d
Huntington Bancshares 3b

I

IBM 18b
IES Industries 24a
Illinois Tool Works 15a
InaCom 21e
Informix 18c
Ingersoll-Rand 15c
Inland Steel 16b
Integra Financial 3a
Intel 9d
Intelligent Electronics 18a
Interco 6b
Interface 15d
International Flavors 4
Intl. Multifoods 10a
International Paper 19b
Intl. Specialty Prods. 4
Interpublic Group 21d
Interstate Bakeries 10b
Ipalco Enterprises 24a
ITT 5

J

J&L Specialty Steel 16b
Jacobs Engineering 21a
James River 19b
Jefferson Smurfit 7b
Johnson & Johnson 12d
Johnson Controls 15a
Johnstown America 23c

K

Kaiser Aluminum 16a
Kaman 21b
Kansas City Power & Light 24a
Kash n' Karry 10c
Kaufman & Broad 13b
Kellogg 10b
Kellwood 6a
Kennametal 15b
KeyCorp 3b
Kimberly-Clark 19b
Kmart 8
Knight-Ridder 20b
Kohl's 8
Kroger 10c

L

La-Z-Boy Chair 6b
Lafarge 13a
Lands' End 8
Landstar System 23d
Lear Seating 2b
Lehman Brothers Holdings 17a
Lennar 13b
LG&E Energy 24a
Lilly (Eli) 12b
Limited 8
LIN Broadcasting 22a
Lincoln National 17b
Litton Industries 9b
Liz Claiborne 6a
Lockheed Martin 1
Loctite 4
Long Island Lighting 24a
Longs Drug Stores 12a
Longview Fibre 7b
Loral 9b
Louisiana Land 11a
Louisiana-Pacific 19a
Lowe's 8
LSI Logic 9d
LTV 16b
Lubrizol 4
Lukens 16b
Lyondell 4

M

Magma Copper 16c
Manor Care 12c
Manpower 21e
Manville 19b
Mark IV Industries 15a
Marriott Intl. 14b
Marsh & McLennan 17a
Marshall & Ilsley 3b
Marshall Industries 21b
Martin Marietta Materials 13a
Mattel 14c
Maxtor 18b
May Department Stores 8
Maytag 6b
MBNA 3a
McCormick 10b
McDonald's 14a
McDonnell Douglas 1
McGraw-Hill 20b
McKesson 12a
MCN 24b
M.D.C. Holdings 13b
Mead 19b
Media General 20b
Medtronic 12d
Mellon Bank 3a
Melville 8
Mercantile Bancorp 3b
Mercantile Stores 8
Merck 12b
Meridian Bancorp. 3a
Merrill Lynch 17a
Meyer (Fred) 8
MGM Grand 14b
Michaels Stores 8
Micro Warehouse 8
MicroAge 18a
Micron Technology 9d
Microsoft 18c
Mid Atlantic Medical 21e
Midlantic 3a
Miller (Herman) 18a
Minnesota Mining 15a
Mirage Resorts 14b
Mitchell Energy 11a
Mobil 11a
Modine Mfg. 2b
Mohawk Industries 15d
Monsanto 4
Montana Power 24a
Morgan (J.P.) 3a
Morgan Stanley 17a
Morrison Restaurants 14a
Motorola 9b
Mueller Industries 16c
Multimedia 20a
Murphy Oil 11a
Musicland Stores 14c

N

Nabisco Holdings 10b
Nacco Industries 15b
Nash Finch 10a
National City 3b
National Fuel Gas 24b
National Gypsum 13a
National Semicond 9d
National Service 9a
NationsBank 3c
Navistar International 2a
NBD Bancorp 3b
NCH 6d
Neiman Marcus Group 8
Nevada Power 24a
New England Electric 24a
New York State E&G 24a
New York Times 20b
Newell 15a
Niagara Mohawk 24a
Nicor 24b
Nike 6a
NL Industries 4
Nordstrom 8
Norfolk Southern 23b
Norrell 21e
Nortek 13a
Northeast Utilities 24a
Northern States 24a
Northern Trust 3b
Northrop Grumman 1
Northwest Airlines 23a
Northwestern Steel & Wire 16b
Norwest 3b
Novell 18c
Nucor 16b

O

Oakwood Homes 13b
Occidental Pet. 11a
Office Depot 8
OfficeMax 8
Ohio Edison 24a
Old Kent Financial 3b
Olin 4
Olsten 21e
Oneok 24b
Oracle 18c
Orange & Rockland Uts. 24a
OrNda HealthCorp 12c
Oryx Energy 11a
Outboard Marine 14c
Owens & Minor 12d
Owens-Corning 13a
Owens-Illinois 7a

P

Paccar 2a
Pacific G&E 24a
Pacific Telesis Group 22b
PaineWebber Group 17a
Pall 5
Panhandle Eastern 24b
Paul Revere 17b
Payless Cashways 8
PECO Energy 24a
Penn Traffic 10c
Penney (J.C.) 8
Pentair 15c
Peoples Energy 24b
Pep Boys 8
PepsiCo 6c
Perkin-Elmer 9c
Petsmart 8
Pfizer 12b
Phelps Dodge 16c
PHH 21e
Philip Morris 6e
Phillips Petroleum 11a
Phillips-Van Heusen 6a
Piedmont Natural Gas 24b
Pier 1 Imports 6b
Pilgrim's Pride 10b
Pinnacle West 24a
Pioneer Hi-Bred 10b
Pioneer-Standard 21b
Pittston Minerals 11a
Pittston Services 23c
Pittway 5
PNC Bank 3a
Polaris Industries 15a
Polaroid 14c
Pope & Talbot 19a
Portland General 24a
Potlatch 19b
PP&L Resources 24a
PPG Industries 13a
Praxair 4
Premark Intl. 5
Premier Industrial 21b
Price/Costco 8
Proffitt's 8
Progressive 17b
Protective Life 17b
PS Co. of Colorado 24a
Public Service Ent. 24a
Puget Sound Power 24a
Pulte 13b

Q

Quaker State 11a
Quality Food Centers 10c
Quanex 16b

R

Ralcorp Holdings 10b
Ralston Purina 10b
Raychem 9a
Rayonier 19a
Raytheon 9b
Read-Rite 9d
Reebok International 6a
Regions Financial 3c
Republic New York 3a
Revco D.S. 12a
Rexel 21b
Rexene 4
Reynolds & Reynolds 18a
Reynolds Metals 16a
Rhone-Poulenc Rorer 12b
Richfood Holdings 10a
Rite Aid 12a
Riverwood Intl. 7b
RJR Nabisco 6e
Roadway Services 23d
Rochester G&E 24a
Rock-Tenn 7b
Rockwell International 5
Rohm & Haas 4
Rohr 1
Rollins 21e
Ross Stores 8
Rouge Steel 16b
Royal Caribbean Cruises 14c
RPM 13a
Rubbermaid 15a
Ruddick 10c
Russell 6a
Ryder System 23c
Rykoff-Sexton 10a

S

Safeco 17b
Safeguard Scientifics 18c
Safety-Kleen 21e
Safeway 10c
Sallie Mae 17a
Salomon 17a
San Diego G&E 24a
Santa Fe Pacific 23b
SBC Communications 22b
Scana 24a
SCEcorp 24a
Schering-Plough 12b
Schlumberger 11b
Scholastic 20b
Schulman (A.) 4
Schwab (Charles) 17a
Scott Paper 19b
Scotts 4
Scripps (E.W.) 20b
Seagate Technology 18b
Sealed Air 15a
Sears, Roebuck 8
Service Corp. Intl. 21e
Service Merchandise 8
ServiceMaster 21e
Shaw Industries 15d
Shawmut National 3a
Sherwin-Williams 13a
Shoney's 14a
ShopKo Stores 8
Silicon Graphics 18b
Skyline 13b
Smart & Final 10a
Smith (A.O.) 2b
Smith International 11b
Smith's Food & Drug 10c
Smithfield Foods 10b
Snap-on 15b
Solectron 9d
Sonoco Products 7b
Southern 24a
Southern New Eng. Tel. 22b
Southern Pacific Rail 23b
SouthTrust 3c
Southwest Airlines 23a
Southwestern PS 24a
Spiegel 8
Sports Authority 8
Springs Industries 15d
Sprint 22a
SPX 2b
St. Jude Medical 12d
St. Paul 17b
Standard Federal Bancorp. 17c
Standard Motor Prods 2b
Standard Register 18a
Stanhome 6d
Stanley Works 15b
Staples 8
State Street Boston 3a
Sterling Chemicals 4
Stewart & Stevenson 15c
Stone & Webster 21a
Stone Container 7b
Stop & Shop 10c
Storage Technology 18b
Strawbridge & Clothier 8
Stryker 12d
Sun 11a
Sun Microsystems 18b
Sun TV & Appliances 6b
SunAmerica 17b
Sunbeam 6b
Sundstrand 1
SunTrust Banks 3c
Super Food Services 10a
Super Rite 10a
Supermarkets Gen. 10c
Supervalu 10a
Sybase 18c

T

Talbots 8
Tambrands 6d
Tandem Computers 18b
Tandy 6b
TCF Financial 17c
Tech Data 18a
Teco Energy 24a
Tecumseh Products 13a
Tektronix 9c
Teledyne 5
Teleflex 15a
Telephone & Data Sys. 22a
Tellabs 22a
Temple-Inland 7b
Tenet Healthcare 12c
Tenneco 5
Teradyne 9c
Terra Inds. 4
Texaco 11a
Texas Industries 13a
Texas Instruments 9d
Textron 5
Thomas & Betts 9a
Thor Industries 14c
Thorn Apple Valley 10b
3Com 18b
3M 15a
Time Warner 20b
Times Mirror 20b
Timken 15c
TJX 8
TNT Freightways 23d
Torchmark 17b
Toro 6b
Tosco 11a
Toys 'R' Us 8
Tracor 9b
Trans World Airlines 23a
Transamerica 17b
Travelers Group 17a
Tribune 20b
Trinity Industries 23c
Trinova 15a
TRW 5
Tucson Electric Power 24a

U

U.S. Bancorp 3d
U.S. Can 7a
U.S. Healthcare 12c
U.S. Home 13b
U.S. Robotics 22a
U.S. Surgical 12d
UAL 23a
UJB Financial 3a
Unicom 24a
Unifi 15d
Union Bank 3d
Union Camp 19b
Union Carbide 4
Union Electric 24a
Union Pacific 23b
Union Texas 11a
Unisys 18b
United Asset Mgmt. 17a
United Illuminating 24a
United Technologies 1
United Wisconsin Services 12c
Unitrin 17b
Univar 21b
Universal Foods 10b
Universal Forest Products 19a
Universal Health 12c
Unocal 11a
UNUM 17b
Upjohn 12b
US West 22b
USAir Group 23a
USG 13a
UST 6e
USX-Marathon 11a
USX-U.S. Steel 16b
UtiliCorp United 24b

V

Valero Energy 11a
Valhi 5
Valspar 13a
Value City 8
Varian Associates 9b
Varity 15c
Vastar Resources 11a
Venture Stores 8
VF 6a
Viacom 20a
Vigoro 4
Village Super Market 10c
VLSI Technology 9d
Volt Info. Sciences 21e
Vons 10c
Vulcan Materials 13a

W

Waban 8
Wabash National 2b
Wachovia 3c
Wal-Mart Stores 8
Walgreen 12a
Wallace Computer 18a
Wang Laboratories 18c
Warner-Lambert 12b
Washington Post 20b
Washington Water Power 24a
WCI Steel 16b
Webb (Del) 13b
Weirton Steel 16b
Weis Markets 10c
Wellman 4
WellPoint Health 12c
Wells Fargo 3d
Western Atlas 11b
Western Digital 18b
Western Resources 24a
Westinghouse Electric 9a
WestPoint Stevens 6a
Westvaco 19b
Weyerhaeuser 19b
Wheelabrator Techs. 24a
Whirlpool 6b
Whitman 5
Wickes Lumber 8
Wicor 24b
Willamette Industries 19a
Williams 24b
Wisconsin Energy 24a
Witco 4
WMX Technologies 21c
Wolverine Tube 16c
Woolworth 8
WorldWay 23d
Worthington Inds. 16b
WPL Holdings 24a
Wyle Electronics 21b

XYZ

Yellow 23d
York Intl. 13a
Zale 8
Zenith Electronics 6b

EDITED BY AMY DUNKIN

YOU DON'T NEED SAM SPADE TO TRACE A LOST PAL

My grandmother, who at age 88 is a very busy woman, recently asked me to help her with a project: She recalls lending a large, sterling-silver tea tray, about 40 years ago, to a woman named Jean Dinion, her friend and decorator in New York. My assignment was to find Ms. Dinion and ask if she had the tray.

I haven't tracked her down yet. What I have learned (unless she married and changed her name) is that she has not died, is not listed in any U.S. phone book, and has not recently bought or sold property in New York. And the search has just begun.

SLIM CLUES. For anyone who would like to track down someone from the past, there are seemingly endless methods of doing so. With persistence and ingenuity, you can find almost anyone at a surprisingly low cost and with very little information. Even adopted children, who face the highest hurdles of all, have had amazing success locating birth parents.

Many times, you can start with just the people's last names and the area they're from, says Joseph J. Culligan, a private investigator and author of *You Too Can Find Anybody: A Reference Manual* (Hallmark Press, $19.95). "The whole thing comes down to one secret," he says. "Follow the paper trail."

SLEUTHING

Today, amateur sleuths can take the trail to its conclusion with amazing ease and speed, thanks to the growth in online information, says Thomas Fedorek, managing director at Kroll Associates, the nation's largest investigations firm. Researchers can gain access to driver's license information, change-of-address forms, professional licenses, voter-registration cards, and more—all by computer. The data may not go back as far as you need, may often contain errors, and may be restricted in the state required. But despite holes, chances are you can get enough information to find the person you seek.

Many such databases aren't directly available to the public. While there are no legal prohibitions against providing most of the data to consumers, companies prefer to serve businesses. That way it's easier to make sure the information won't be used for nefarious purposes, says Marty Abrams, director of privacy and consumer policy at TRW Information Systems & Services.

The online services are also costly and require special research skills, so you may be better off hiring a professional anyway. Through NEXIS-Express, you can request a search costing $6 a minute by calling 800 843-6476. (Searches average five to seven minutes.) Or you can hire an independent information broker. Ask your librarian for a referral. Usually, researchers charge for their time as well as the cost of using the database. LOSTfriends in Columbus, Ohio, (614 890-6818) will begin a search with just a first name and birth date. Fees range from $35 to $150. These services won't do any

Finding That Elusive Someone

- Obtaining a Social Security number will simplify your search, since it makes it easier for public agencies to trace individuals.
- Check a national database of phone listings, available through CompuServe, or one of several CD-ROMs, costing $50 to $150.
- Check public records, such as motor vehicle registrations, in the relevant states. Also peruse voter files, real estate records, and marriage or professional licenses.
- If you are searching for elderly persons, write to the Social Security Administration to find out if they are deceased.
- The Salvation Army, Red Cross, and Social Security Administration will help with searches for missing relatives—but not friends.
- If you narrow your search to a handful of people with the same name, write to each of them asking for help.

DATA: KROLL ASSOCIATES, JOSEPH J. CULLIGAN, PRIVATE INVESTIGATOR; BUSINESS WEEK

ine detective work for But licensed private de- ves can also tap into the bases and, for about $50 our, will interview former hbors, search newspaper gues, and comb through files.

ll the databases do is e it easier to gain access ıblic records. You always e the right to write to ic agencies to request the e information or go ugh the files yourself, al- gh the trend now is to ict access to protect pri- , says Abrams. This can me-consuming and intim- ng. But it's free, it's accu- and you may be able to n other facts from the copy.

'hether you plan to pur- electronic or old-fashioned shoe methods, you should gather as much informa- as you can. The full e, age, physical descrip- former address, profes- and hobbies can all come ındy. And if you are look- for someone who might n your hometown, the ic library may be a good stop.

DLE PEDIGREE. If you're ing down people who are rly, consult the Social Se- y Administration's Death ter File to make sure haven't died. You can e directly or use an online ice, such as CompuTrace ompuServe. Another easy is to check a national ıe book program and see e person is listed. Compu- ve offers Phone*File. D's Select Phone CD-ROM, h costs $149, lets you ch by name, address, and ıe number.

ow you proceed next de- ls on what information ve got. If you know what e the person moved to, may still be able to re- t a driver's license rd, although laws are ging. Voter-registration real estate records, and riage and professional li- es, if available, all con- addresses and may show arding addresses, as well. Hobbies can be a great clue. Culligan found one woman through the registration of her purebred poodle. He located a deadbeat dad from his hunting license. If the person might be a techie, check the member lists of online services.

If all else fails, you may be able to employ tricks of the private eye's trade. For example, try picking up the trail of the person's brother or father, who may be easier to locate or have a less common first name. If you can narrow down your list to a reasonable number of people with the same last name, hit the phones. Explain why you want to locate the person: You're an old Army buddy, or you want to tell your fifth-grade teacher how much she influenced your career. Make sure you don't create the impression that you have a sinister intent. Less intrusive than calling is sending a simple photocopied form letter asking for help.

If you know which city the person has probably landed in but can't find an address or phone number, try using a classified ad as "a last-ditch effort," says Fedorek. He once found an elderly woman when a social worker who had treated her in the hospital read the ad and notified him of her whereabouts. The Salvation Army and the Red Cross have programs to locate lost family members. The Social Security Administration and the Internal Revenue Service won't give out an address but will forward a letter to a relative.

If you want to find a friend you've simply lost track of, you'll have to do some legwork on your own—or get your granddaughter to do it. My next step in the search for Jean Dinion will be to write a letter explaining my goal to the handful of Dinions that I found on CD-ROM. Even if that doesn't work, I am hopeful I will find her eventually. I am less confident about recovering the tea tray. *Amey Stone*

LADDERS TO HELP CLIMB YOUR FAMILY TREE

John Adams' addiction began when he looked up his coat of arms for a signet ring

he wanted made. Now, he can't stop scaling his family tree. "I've tracked ancestors back to the 10th century," says Adams, who pores over 18th century marriage certificates and 16th century wills when not running his Baytown (Tex.) mortgage firm.

Thousands of Americans have caught the genealogy bug, aided by computer programs designed to help organize the research and by special libraries such as the Clayton Library Center for Genealogical Research in Houston. Why is the hobby so popular? Many people are intrigued by family roots, especially when they discover a forebear who is "slightly criminal and chock-full of colorful exploits," says Helen Leary, past president of the Board for Certification of Genealogists in Falmouth, Va. And in a fragmented society, genealogy gives people a sense of self and security. "When you feel the ground beneath you is not firm, it's comforting to grab on to your family tree," she says.

OLD BONES. To get started, Leary recommends collecting birth, marriage, and death certificates, obituaries, diaries, wills, letters, and Bibles of family members, past and present. Such items verify relations, validate family lore, and provide insights into ancestors' personalities. Carolyn Nell, president of the National Genealogical Society in Arlington, Va. (703 525-0050), urges researchers to visit their oldest relative as soon as possible: "When that person dies, you've lost an invaluable resource."

At the point when family members and their personal papers can no longer answer the questions, it's time to tap public resources. The largest is the Family History Dept. of the Church of Jesus Christ of Latter-Day Saints (LDS) in Salt Lake City (801 240-2331). Founded in 1894 to keep track of its members' histories, the library has close to 2 million reels of microfilmed records containing 200 million names, with 7 million added each year. The resource is free and open to everyone, regardless of religion.

If Salt Lake City isn't on

Genealogy Resources

- ***Genealogy in the Computer Age: Understanding Family Search*** by Elizabeth L. Nichols ($9.95; Family History Educators)
- ***Genealogy Online: Researching Your Roots*** by Elizabeth Powell Crane ($29.95; McGraw-Hill)
- ***Where to Write for Vital Records: Births, Deaths, Marriages, and Divorces*** (U.S. Health & Human Services Dept., Aug., 1987, Publication No. [PHS] 87–1142). For a copy, write: Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402

DATA BUSINESS WEEK

your agenda, try one of the 1,600 LDS family-history centers scattered throughout the U.S. and abroad. The centers are in Mormon churches and offer some of the same computerized and microfilmed references as the main library. They all have a complete index to the LDS collection and can requisition its holdings.

Most big cities have genealogical facilities as part of the library system. Here are sources on how to get the records needed to learn, say, why a certain Great-great-uncle Ned was arrested.

And to help chronicle the life of your colorful progenitor, myriad software programs are available. Choices range from the easy-to-use Personal Ancestral File (PAF) ($35), distributed by LDS, to the multifaceted Roots IV ($159) from COMMSOFT. While PAF is capable of simple data entry and family charting, Roots IV can accept scanned-in images and can diagram nontraditional family structures such as those that include illegitimate children. Be sure the software you choose operates under the GEDCOM (genealogical data commu cations) file format. It allo seamless transfer of infor tion between such progra

Whether your family's cords are stored in a thr ring binder or a comput the case is never closed. T bad Great-great-uncle N didn't take up genealogy. might have kept him out trouble. *Kate Murp*

SMART MONEY

JAPAN'S MUTUAL FUNDS: PICKING YOUR MOMENT

It has been five years now, and you still have to scrape Japanese mutual-fund returns off the pavement with a spatula. But if you hold these hapless funds, a turnaround may lie ahead. If you haven't yet invested in Japan, this might be a chance to get in at the bottom.

A long-term bear market, a banking crisis, and a rising yen, which crippled exports, have all battered Japan's economy. Throw in the Kobe quake and the cult bombings, and you have a real disaster. The Tokyo market has hit two false bottoms in the past four years—when it briefly rallied, only to fall again. Now, it's down some 60% from its 1989 peak. Barton Biggs, chief economist at Morgan Stanley, thinks there's a 70% probability the worst is over: "Now's the time to jump into Japan."

HIGH YEN. But any move should be toe-first. "My concern is that we could see a repeat of [the previous rallies], and the real measures to stimulate imports and restructure industries won't be followed through on," says Paul Kirby, manager of GAM Japan Capital Fund. Still, Japan is making some headway. Most analysts agree it will solve its banking crisis. It has cut interest rates, increased liquidity, and launched a public-works program to stimulate growth. While stocks are still on the pricey side, more bargains are appearing. "Valuations have never been more attractive," says Shigeki Makino, manager of the Fidelity Japan Fund. Also, Japanese companies have been restructuring and cutting costs—progress that has been masked by a high yen.

Most fund managers are bullish on electronics: Companies such as Sony, Sharp, and Hitachi will be profitable again if the yen stabilizes, predicts Chris Wendler, vice-president of Rowe Price-Fleming International. He also likes discount retailers such as Seven-Eleven Japan, which is part of a retailing revolution from mom-and-pop stores to discount houses. And he thinks companies in basic industry may benefit from public-works initiatives.

Warburg Pincus Japan OTC focuses on small outfits. Its theory: Japan's big conglomerates are losing out to smaller, nimbler rivals that produce offshore and undercut their prices. Take Nihon Jumbo. By importing chemicals, it develops film for half the price of Fuji Photo Film, which is locked into domestic suppliers. Japan OTC, down 16% through July 26, is buying small electronics producers such as I.O. Data, which makes computer boards. Such companies are "ridiculously cheap," argues co-manager Nicholas Horsley, but their products are in great demand.

Land of the Rising Funds?

FUND	TOTAL RETURN YTD*	TOTAL RETURN 3-YEAR
FIDELITY JAPAN	-5.86	NA
GAM JAPAN CAPITAL	8.52	NA
GT GLOBAL JAPAN GROWTH A	5.4	6.55
T. ROWE PRICE JAPAN	5.3	5.26

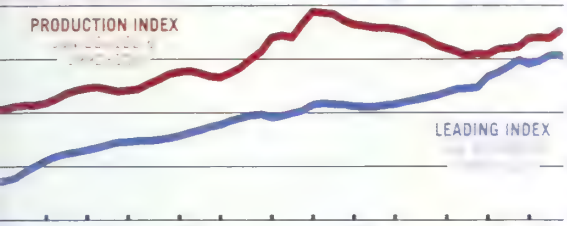
*Trailing date returns as of [illegible] NA=Not available

If you're worried about yen fluctuations, GAM's Ki by hedges to the dollar to eliminate currency risk. But betting on currencies is itself risky. This year, such funds lost out on gains from the yen's appr ciation. Right now, Kirby somewhat cautious: He ha 18% of assets in cash. GT Global Japan Growth is controlling risk by keepin one-third of the portfolio bonds. Its stock holdings are concentrated: 5% of as sets are in DDI, a cellular-phone company, for example. Recent deregulated, that market is explod ing, says Christia Wignall, chief in vestment office of GT Global Mu tual Funds.

You could buy dollar-denominate American deposita receipts of Japanese companies, but mutual fun offer experienced manage ment in an arcane market where commissions are high. And they lower risk by diversifying. The oldes Japan fund, Scudder's Japan, has logged a 12.86% a nualized return for the pa 10 years, but returns have been negative for the past years. The best course ma be to watch for signs that the government is creatin long-term economic solutions and then use dollar cost averaging to buy in. But brave souls who jump in now should expect a rough ride. *Pam Bl*

usiness Week Index

ODUCTION AND LEADING INDEXES



production index increased during the week ended July 22. Before ulation of the four-week moving average, the index also gained ground, g to 124.9 from 120.5. Seasonally adjusted output levels of autos and ks increased as plants reopened after model changeovers.
leading index was virtually unchanged in the latest week, but the eraged index fell to 260.4, from 261.7. All of the available indicators al slower economic growth ahead.

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL	1.895	[illegible]	[illegible]
AUTOS (7/29) units	103,328	[illegible]	-9.4
TRUCKS	96,435	92,698r=	-9.1
ELECTRIC POWER	77,971	[illegible]	[illegible]
CRUDE-OIL REFINING (7/29) thous. of [illegible]	14,[illegible]	14,372=	0.8
COAL	19,997=	19,001	[illegible]
PAPERBOARD	[illegible]	[illegible]	[illegible]
PAPER (7/22) thous. of tons	[illegible]	822.0r	[illegible]
LUMBER (7/22) millions of ft.	[illegible]	[illegible]	[illegible]
RAIL FREIGHT	[illegible]	[illegible]	[illegible]

Sources: [illegible] Association, NWPA, SFPA, Association of American Railroads

ADING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
CK PRICES (7/28) S&P 500	561.50	555.86	23.5
PORATE BOND YIELD, Aaa (7/28	[illegible]	[illegible]	-6.1
USTRIAL MATERIALS PRICES (7/28	113.5	115.0	NA
INESS FAILURES (7/21)	NA	NA	NA
L ESTATE LOANS (7/19) billions	$491.6	$491.5	12.4
NEY SUPPLY, M2 (7/17) billions	$3,669.9	$3,669.5r	2.5
IAL CLAIMS, UNEMPLOYMENT (7/15) thous.	416	399	4.3

rces: Center for International Business Cycle Research (CIBCR), Standard & [illegible]

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD [illegible]	382.650	386.000	0.0
STEEL SCRAP (8/1) #1 heavy, $ [illegible]	[illegible]	[illegible]	19.6
COPPER (7/29) ¢/lb	[illegible]	[illegible]	18.7
ALUMINUM [illegible]	[illegible]	[illegible]	24.6
COTTON [illegible]	88.33	91.47	19.1
OIL (8/1) $ [illegible]	[illegible]	[illegible]	-12.5

Sources: [illegible] Metals Week, Metals Market, NYMEX

TEREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
ERAL FUNDS (8/1)	5.55%	5.73%	4.28%
MMERCIAL PAPER (8/1) 3-month	[illegible]	5.81	[illegible]
TIFICATES OF DEPOSIT (8/2) 3-month	[illegible]	[illegible]	4.68
ED MORTGAGE (7/28) 30-year	[illegible]	[illegible]	[illegible]
USTABLE MORTGAGE (7/28) one-year	[illegible]	[illegible]	5.59
ME (8/2	8.75	8.75	7.25

rces: Federal Reserve, [illegible]

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (8/2)	[illegible]	[illegible]	100.55
GERMAN MARK (8/2)	[illegible]	1.39	1.59
BRITISH POUND (8/2)	[illegible]	[illegible]	1.54
FRENCH FRANC (8/2)	4.81	4.82	5.44
ITALIAN LIRA (8/2)	[illegible]	[illegible]	1586.5
CANADIAN DOLLAR (8/2)	1.36	1.36	1.39
MEXICAN PESO (8/2)	[illegible]	6.105	3.374

Sources: Major New York banks. Currencies expressed in units per U.S. dollar.

[illegible] data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense [illegible]pment. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value. NA=Not available. r=revised. NM=Not meaningful.

THE WEEK AHEAD

ALLMENT CREDIT

day, Aug. 7 ▶ Consumers probably d about $10.5 billion in new debt in , says the median forecast of econo- s surveyed by MMS International, one of McGraw-Hill Cos. That's suggested by 0.7% jump in June retail sales. Con- er borrowing has skyrocketed in 1995. ay alone, installment credit surged 5 billion.

DUCTIVITY & COSTS

day, Aug. 8, 10 a.m. ▶ Productivity in nonfarm sector likely grew at an annual of about 1.5% in the second quarter. ough the increase in output was small, s worked in the nonfarm sector fell by more than 1%, at an annual rate. Once again, the biggest productivity boost probably came in the manufacturing sector, where output per hour jumped at a 3.2% pace in the first quarter. Nonfarm unit labor costs likely grew by less than 1% last quarter, after advancing by a small 1.4% in the first. Factory unit labor costs may have fallen, after rising 1.1%.

PRODUCER PRICE INDEX

Thursday, Aug. 10, 8:30 a.m. ▶ The MMS survey forecasts that producer prices of finished goods were unchanged in July, after slipping 0.1% in June. Excluding food and energy, the PPI probably rose 0.2% in July, the same gain posted in June.

CONSUMER PRICE INDEX

Friday, Aug. 11, 8:30 a.m. ▶ Consumer prices likely edged up 0.2% in July, after a puny 0.1% gain in June. Excluding food and energy, prices probably also rose 0.2% in July, the same as in June. A new flurry of auto incentives offset price gains elsewhere. Yearly inflation remains at about 3%.

RETAIL SALES

Friday, Aug. 11, 8:30 a.m. ▶ Retail sales probably rose 0.5% in July after increasing 0.7% in June, says the MMS report. That's suggested by the weekly survey of retailers. The heat wave across the Midwest and East caused a swell of demand for hot-weather-related items, such as air conditioners.

Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A

ABC (CCB) 44
Addison-Wesley 41
A.H. Robins 50
Allen & Co. 6
Allied-Domecq 56
American Airlines (AMR) 10
American Funds Group 72
American Home Products (AHP) 74
Ameritech (AIT) 60
AnnTaylor Stores (ANN) 88
AssistWare Technology 80
AT&T (T) 50, 55, 68, 82
Atlantic-ACM 82
Atlantis Group 8
Avnall 44
Avritas 50

B

Bally Entertainment (BLY) 44
Bank of France 27
Bank of Tokyo 52
Barnes & Noble 70
Bechtel 80
Best Buy (BBY) 18
Blockbuster Videos 68
BMW 55
Boeing (BA) 88
Brandywine Asset Management 70
Brecker & Merryman 60
Briggs & Stratton (BGG) 10
Bristol-Myers Squibb (BMY) 74
Burlington Coat Factory (BCF) 74

C

Cabletron (CS) 50
Capital Cities/ABC (CCB) 6, 30, 35, 74, 114
Carl's Jr. (CKR) 68
Case (CSE) 44, 62
Caterpillar (CAT) 42, 50, 62
CBS (CBS) 30, 35, 44
Ceridian (CEN) 60
Chase Manhattan (CMB) 66
Chemical Bank (CHL) 66
Chesebrough-Pond 48
Chevron (CHV) 58
Chipcom (CHPM) 50
Chrysler (C) 88, 46
Church & Dwight (CHD) 48
CIGNA (CI) 51
Citibank (CCI) 60
C.J. Lawrence/Deutsche Bank 86
Coca-Cola (KO) 88
Coleco 8
Colgate-Palmolive (CL) 48
Combined Properties 6
COMMSOFT 109
CompUSA (CPU) 18
CompuServe (HRB) 108
CompuTrace 108
Corporate Telemanagement Group 86
Cosmo Credit 52
CS First Boston 44, 90
CSC Index 41

D

Dart 6
Dataquest 55
DDI 110
Deere (DE) 62
Delta Air Lines (DAL) 68, 88
Den-Mat 48
Deutsche Morgan Grenfell 55
Deutsche Telekom 82
Digital Equipment (DEC) 50
Donaldson Lufkin & Jenrette 74
Dove Associates 68
Dow Chemical (DOW) 60

E

Elek-Tek 18
Enron (ENE) 54
EuroPacific Growth Fund (AEPEX) 72
Exxon (XON) 26, 58

F

Federated Department Stores (FD) 70
Fidelity Investments 51
Fidelity Japan Fund (JAPX) 110
1st Source (SRCE) 40
First Union (FTU) 68
Ford (F) 6, 42, 62, 88
Fox 114
France Telecom 82
Frontier (FRO) 82
Fuji Photo 110

G

GAM Japan Capital Fund (UGC1Z) 110
General Electric (GE) 18, 30
General Motors (GM) 6, 42, 46, 80, 88
Glaxo (GLX) 74
G.T. Global 110
GynoPharma 50

H

Hallmark Press 108
Hasbro (HAS) 8
Hewlett-Packard (HWP) 10
Hitachi (HIT) 110
Home Depot (HD) 70
Honda 80
Honeywell (HON) 62
Hughes Aircraft 80

I

IBCA 52
IBM (IBM) 10, 18, 75
IDB Communications 82
Information Resources 48
Intel (INTC) 50
Interactive Design Studios 79
International Paper (IP) 62, 88
International Television 55
I.O. Data 110
ITT (ITT) 44

J

James Capel Pacific 52
J & R Computer World 18
Johnson & Johnson (JNJ) 50
J.P. Morgan (JPM) 44
Jumpin' Jaxx 74

K

Keefe Bruyette & Woods 66
Kimberly-Clark (KMB) 44
King World Productions (KWP) 30
Kmart (KM) 70
KPMG Peat Marwick 26
Kroll Associates 108

L

Ladenburg Thalmann 82, 86
Lands' End (LE) 88
LCI International (LCI) 82, 86
Lehman Brothers (LEH) 58, 90
Licensing Group 35
Lipper Analytical Securities 72
Lockheed Martin (ML) 88
Loeb Associates 70
LOSTfriends 108
Lotus (LOTS) 75
Louisiana-Pacific (LPX) 50

M

Macy (R.H.) 70
Marion Merrell Dow (MKC) 76
MarkAir 50
Martin Marietta (ML) 80
MasterCard 68
Mattel (MAT) 8
McDonald's (MCD) 68
McGraw-Hill (MHP) 27, 90, 111
MCI (MCIC) 50, 82, 86
Melville (MES) 70
Merck (MRK) 88
Merrill Lynch (MER) 82
Michigan National 66
Microsoft (MSFT) 55
MIDCOM Communications 82
Midland Bank 68
MMS International (MHP) 111
Mobil (MOB) 58
Mondex 68
Morgan Stanley (MS) 88, 110
Morrison Knudsen (MRN) 50
Mutual Series Fund 66

N

Nanophase Technologies 79
National Australia Bank (NAB) 66
NationsBank (NB) 66, 68
NatWest (NW) 26, 68, 70
NBC (GE) 30
Network Plus 82
News Corp. (NWS) 37
Nihol Jumbo 110

O

Oppenheimer (OPCO) 50, 74
Original Appalachian Artworks 8

P

Panasonic 18
Philip Morris (MO) 50
Philips Electronics (PHG) 55
Polaroid (PRD) 60
PolyGram (PLG) 55
Portable Software 18
ProCD 108
Procter & Gamble (PG) 46, 48
Prudential Securities 16, 70, 74

R

RalCorp Holdings (RAH) 44
Ralston Purina (RAL) 44
RDI Computer 80
Regional Financial Associates 5
Response Analysis for MainStay Funds 72
R.J. Reynolds (RN) 50
Rothschild 44
Rowe-Price Fleming 110
Ryder System 44

S

Sanford C. Bernstein 66
Saudi Aramco 58
Scandinavian Broadcasting Systems 74
Scott Paper (SPP) 44
Seagram (VO) 30
Sears (S) 70, 88
Securities Data 6
Seven-Eleven Japan 110
S.G. Warburg 55, 86
Sharp 110
Shearman & Sterling 6
Skadden Arps 6
Smith Barney (SBSH) 62
Sony (SNE) 55, 110
Spencer Nilson 68
Sprint (FON) 82

T

Tandon Associates 66
Tele-Communications (TCOMA)
Tenneco (TGT) 44, 62
Texaco (TX) 58, 60
Texas Instruments (TXN) 88
3Com (COMS) 50
Threshold Entertainment 35
Time Inc. (TMC) 114
Time Warner (TWX) 30, 37, 30
Toshiba 55
Total-Tel USA Communications
Toys 'R' Us (TOY) 88
TRW (TRW) 108

U

UBS Securities 52
United International Holdings (UIHI) 55
UPC 55
USAir (U) 42, 50
U S West (USW) 68

V

Verifone (VFIC) 68
Veronis Suhler & Associates 35
Viacom (VIA.B) 30, 37, 44, 74
Visa 68

W

Wachovia (WB) 68
Walgreen (WAG) 70
Wal-Mart (WMT) 88
Walt Disney (DIS) 6, 30, 35, 37, 74, 114
Warburg Pincus Japan OTC (WPJPX) 110
Warner Communications 114
Warner-Lambert (WLA) 48, 74
Westinghouse (WX) 30, 35, 44
Whitehall Laboratories (AHP)
Wilkofsky Gruen Associates 35
Wilmington Trust (WILM) 68
WilTel 82
Working Assets Long Distance
WorldCom 82
W.R. Grace (GRA) 44

Y

Yugorsky Bank 56

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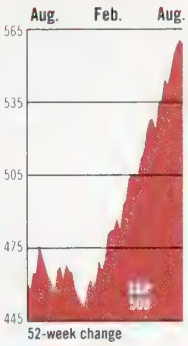
vestment Figures of the Week

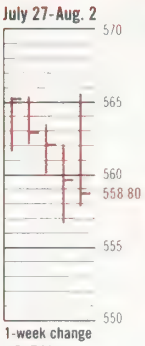
ENTARY

ls dominated the Dow in-
ls. Walt Disney's $19 bil-
quisition of Capital Cit-
C, announced on July 31,
d by Westinghouse Elec-
5.4 billion offer for CBS
t day, led to gains in both
tors' stock. But that was-
ugh to push the Dow to a
gh. On Aug. 2, it opened
y, up over 50 points as the
gained 3% vs. the yen,
to central bank interven-
ut the rally melted as in-
started to worry about a
in the tech stocks.

STOCKS

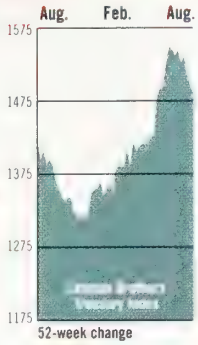


52-week change
+21.1%



1-week change
–0.5%

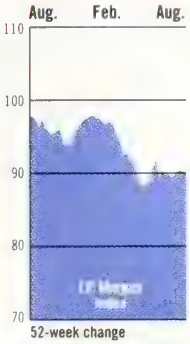
BONDS



52-week change
+5.2%

1-week change
+0.2%

THE DOLLAR



52-week change
–6.5%

1-week change
+1.0%

RKET ANALYSIS

TOCKS	Latest	% change Week	52-week
NES INDUSTRIALS	4690.2	–0.4	23.7
E COMPANIES (S&P MidCap Index)	205.0	–0.1	19.7
COMPANIES (Russell 2000)	297.8	0.6	21.2
MPANIES (Russell 3000)	320.1	–0.3	21.1

GN STOCKS	Latest	% change (local currency) Week	52-week
N (FINANCIAL TIMES 100)	3499.9	1.3	10.7
(NIKKEI INDEX)	16,720.8	2.0	–19.0
TO (TSE COMPOSITE)	4594.7	–0.2	9.2

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	5.57%	5.61%	4.41
30-YEAR TREASURY BOND YIELD	6.86%	6.88%	7.38
S&P 500 DIVIDEND YIELD	2.39%	2.38%	2.73
S&P 500 PRICE/EARNINGS RATIO	16.4	16.6	18.8

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day moving average	497.4	495.1	Positive
Stocks above 200-day moving average	75.0%	75.0%r	Negative
Speculative sentiment: Put/call ratio	0.58	0.61 r	Negative
Insider sentiment: Vickers sell/buy ratio	2.24	2.25 r	Neutral

BLOOMBERG FINANCIAL MARKETS

DUSTRY GROUPS

ONTH LEADERS	% change 1-month	12-month	Strongest stock in group	% change 1-month	12-month	Price
URE TIME	13.7	–3.9	BRUNSWICK	19.9	–15.1	20 3/8
MINUM	12.6	35.0	REYNOLDS METALS	21.3	23.0	62 3/4
LROADS	11.8	21.7	UNION PACIFIC	16.9	8.8	64 3/4
PITAL MANAGEMENT	11.2	14.1	COMMUNITY PSYCHIATRIC CENTERS	13.3	–4.7	12 3/4
ADCASTING	9.3	26.6	CBS	16.0	23.5	77 3/4

ONTH LAGGARDS	% change 1-month	12-month	Weakest stock in group	% change 1-month	12-month	Price
AND GAS DRILLING	–7.1	–6.8	ROWAN	–12.3	–17.4	7 1/8
AL AND GLASS CONTAINERS	–6.9	29.3	CROWN CORK & SEAL	–9.7	27.0	45 1/4
CIALTY APPAREL RETAILERS	–4.6	–7.2	THE LIMITED	–8.5	3.9	20 1/8
TOGRAPHY/IMAGING	–4.6	19.9	EASTMAN KODAK	–5.4	19.5	57 3/8
URANCE BROKERS	–3.3	–5.3	MARSH & McLENNAN	–3.5	–8.9	78 1/4

TUAL FUNDS

MORNINGSTAR, INC.

ERS

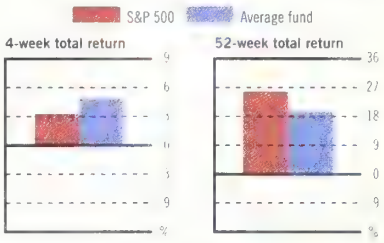
eek total return	%
ER DEFINED CONTRIB. SMALL CAP	18.1
ELLIER AGGR. SMALL CAP EQUITY	16.9
ETT SMALLER COMPANIES A	16.2

ek total return	%
NGMAN COMMUNICATIONS & INFORM. A	123.4
ELITY SELECT ELECTRONICS	105.3
ETT SMALLER COMPANIES A	102.7

LAGGARDS

Four-week total return	%
STEADMAN INVESTMENT	–2.9
RYDEX URSA	–2.8
MATHERS	–2.3

52-week total return	%
MERRILL LYNCH LATIN AMERICA B	–27.8
AMERICAN HERITAGE	–27.8
BT INVESTMENT LATIN AMERICAN EQUITY	–27.3



LATIVE PORTFOLIOS

DRI/McGRAW-HILL

amounts represent the
t value of $10,000
ed one year ago
h portfolio

ntages indicate
ay total returns

U.S. stocks	Treasury bonds	Foreign stocks	Money market fund	Gold
$12,459	$11,368	$11,363	$10,531	$9,974
–0.26%	–1.02%	+0.73%	+0.13%	–1.00%

on this page are as of market close Wednesday, Aug. 2, 1995, unless otherwise indicat-
ustry groups include S&P 500 companies only; performance and share prices are as of market close Aug. 1. Mutual fund returns are as of July 28. Relative portfolios are valued as of Aug. 1. A more detailed explanation of this page is available on request. r=revised NA=Not available

THE EXPANDING ENTERTAINMENT UNIVERSE

The $19 billion Walt Disney-Capital Cities/ABC deal shows once again that entertainment has replaced the defense and auto industries as the driving force of the U. S. economy. Proof? Run the numbers: Entertainment is the No. 1 American export (bigger than aircraft), new-job generator (bigger than health care), and technology driver (the hottest software is developed for *Jurassic Park*, not Star Wars missile defense). The surge in entertainment is clearly a positive force for growth (page 30).

But is the new Entertainment Economy threatening? After all, consolidation—especially the vertical kind exemplified by the Disney-Cap Cities/ABC combo—has in the past led to monopoly markets, restricted consumer choice, and higher prices. With Cap Cities, Disney will be the first media company to control distribution channels in broadcast, cable, film, and telephone (through joint ventures with three regional Bells). Are we seeing a concentration of media ownership that will deprive the public of choice? Will independent producers be squeezed out? Will a few global entertainment conglomerates force a bland, Mickey Mouse kind of homogeneous culture down the throats of billions of people around the globe?

No, no, and probably not. Technology is the economic Cuisinart of the '90s, chopping, mashing, and mixing once-discrete industries into new configurations for the consumer's edification. The Information Revolution may be sending certain corporations hurtling toward one another in search of synergy, but at the same time it is expanding the total economic universe within which all media companies play. The market for entertainment and information is growing much faster than the industry is consolidating.

The deconstruction of old market segments by technology is quickly being followed by new combinations. Time Inc. went from being a magazine publisher to a cable operator and TV programmer, merged with Warner Communications Inc. make and distribute movies, and now owns a telephone sy tem. Publishing, cable distribution, TV programming, fil and the phone business are becoming one distribution syste

Is that bad? Not that anyone can yet demonstrate. Techn ogy, if anything, has so far been a force for decentralizati and growth. Dozens of new cable channels are springing u as well as new TV networks. Hundreds of new companies a turning out educational CD-ROMs, interactive games, and sp cial effects for films. Check out the new Silicon Alley downtown Manhattan, where a new interactive industry is b ing built. Or sit through the credits of any new movie, whe new categories of jobs, such as computer animation and di ital graphics, are joining best boy and gaffer.

Washington policymakers would do well to keep gove ment out of the way of all this technological change. Gove ment has no business making preemptive moves against p sible monopolies before an industry even develops. No one c anticipate the creation of monopolistic situations in the thr of technological turmoil. In fact, the best role for Washingt to play is to deregulate old monopolies as fast as possib Opening both the local phone and cable TV markets to r competition would do everyone a real service. If, in the futu one corporation winds up controlling every source of ent tainment and information in a community, as the House te com bill allows, then regulators might step in and dema more local competition.

The growing entertainment economy is a big plus for t U. S. It plays to the nation's strengths of creativity, techn ogy, speed, and mass marketing. So far, the entertainm lead has translated into global competitiveness, growth, a jobs. Better to have Mickey and Goofy driving the wo economy than the dogs of war.

A BETTER WAY TO PROTECT INVESTORS

The current congressional effort to gut investor protection is one more example of ideological extremism that will provoke a public backlash in the years ahead. But among the bills being proposed, those on litigation reform do have virtue.

Frivolous lawsuits demanding retribution because a company's stock took a tumble have gotten out of hand. It's too easy for some lawyer to allege on flimsy evidence that the company misled investors and then claim to represent all of the thousands of a stock's owners. The current system is particularly hard on high-tech companies, which need heavy doses of market capital but are subject to wide stock swings.

Under the new reforms, executives would have more freedom to discuss their company's future without having to worry about being sued for fraud if some unforeseen problem crops up. The courts would get additional powers to evaluate cases early on and weed out frivolous suits. And inju parties—not their lawyers—would decide whether to go with the suit and what settlement to accept.

Good as it is, the legislation needs to be tightened. Sa top executive announces that an exciting new product about to come out. The company's stock then soars. But official fails to check if the product actually works. It does and the stock crashes. Under the new legislation, the exe tive would not be held liable.

We think shareholders deserve better. They should be abl sue not only if an executive knew but also should have kn that a statement was false. We're for measures that prohibit p alizing companies for inaccurate predictions made in good fa But if Congress and President Clinton leave a loophole large, a counterattack is certain from justly outraged invest


OCEAN
PLANET
SMITHSONIAN
See How The Other Three Quarters Lives.
The New Ford Explorer. Proud Sponsor Of Ocean Planet.
Ford

WALL STREET BEARS ON THE PROWL

HIGH TECH ▸ HP'S CONSUMER STRATEGY ▸ ISRAEL'S HOT ENTREPRENEURS

BusinessWeek

ST 21, 1995 A PUBLICATION OF THE McGRAW-HILL COMPANIES $2.95

THE OPERATOR

Inside Ron Perelman's $5 Billion Empire

PAGE 54

IT HAS LEATHER IN PLACES LUXU

In the first place, the all-new Chrysler Town & Country LXi has eight-way power front seats that are trimmed in leather. Both served by standard air conditioning and dual-zone temperature controls, with which driver and front passenger can establish individual interior climate zones. The driver's seat will remember two drivers' favorite positions. Well within arm's length are power windows, door locks and exterior mirrors (also with memory) as well as a standard AM/FM/CD/cassette and ten-speaker Infinity Acoustic 10™ sound system.

In the second place, Quad Command bucket seats are standard. Trimmed in leather. With armrests, head restraints and recliner backs. Their backs fold forward, too, to serve as tables (with cup holders).

Introducing The All-New Chrysler Town & Country

And to further coddle these seats' occupants, airflow comfort co are readily at hand.

In the third place (note that the average luxury car ran o places sometime in the previous parag is a new comfort-engineered bench Trimmed in leather, of course. This seat is also one of our new industry-ex Easy Out Roller Seats.™ It can be easily raised up on wheels and into a choice of positions, or rolled back, lifted out and rolled a altogether to make room for more cargo.

The sum of these places is a luxury vehicle with passenger unrivaled by any luxury car short of a limousine. And with the removed, more cargo space than any other minivan.

Always wear your seat belt. Excludes sunscreen glass. Infinity Acoustic 10™ is a registered trademark of Infinity Sound Systems.

Chrysler Town & Country LXi interior shown.

RS DON'T EVEN HAVE PLACES.

ne thing we did not look upon as a luxury, nor limit to
safety. So Town & Country's standard safety
clude four-wheel ABS, dual front air
mic side-impact protection, four
stable outboard shoulder
nd more. Indeed,
own & Country LXi
98 federal passenger
tandards.
luxurious all-new 1996
own & Country LXi. Anyplace you
s, quite simply, the ultimate minivan.
-4-A-CHRYSLER for more information.

CHRYSLER TOWN & COUNTRY

The Ultimate

Cover Story

54 THE OPERATOR
From cosmetics to cigars, Ron Perelman has built a cleverly structured empire of companies he loves to run, while his hardball tactics have left a trail of enemies. Now, Perelman, aided by his tight circle of dealmeisters, is again creating a buzz, from Hollywood to Vegas to Wall Street

58 MAKING REVLON LOOK TOO PRETTY?
Its [illegible] is much less than what company bean-counters maintain

News: Analysis & Commentary

24 COLLISION COURSE
With Clinton and the GOP at odds over resolving the fiscal crisis, the possibility of a "train wreck" gathers steam

26 THE TELEPORK BARREL
Side deals and exemptions riddle the House telecom-reform bill

27 WILL CONSUMERS TAKE A HIKE?
Both manufacturers and service providers are cautiously raising prices and hoping they stick

28 TED CAN'T TAKE HIS EYES OFF CBS
Against all odds, Turner is still trying to find a way to be at least a part-owner of the Tiffany Network

29 THINK EDS IS HOT NOW? JUST WAIT
Independence would give the giant more access to capital and even greater opportunities for growth

30 SILICON VALLEY: HOW SWEET IT IS
It's a sunlit spot amid the gloom of California's slump, thanks to a boom in high-tech stocks

31 AMERICA'S WEATHER MARKET
This summer, it's Mother Nature, not supply and demand, calling the shots on prices

32 GROUNDS FOR A LAWSUIT?
Hot-coffee cases have fast food outfits in hot water

32 THE ORGAN GRIND
Health insurers' insistence on getting big discounts could squeeze out small hospitals—and R&D

34 IN BUSINESS THIS WEEK
Microsoft in court, goofy gold, IBM and Win95, BankAmerica, bakery deals, Union Pacific, Disney on the Charles

International Business

38 GERMANY
Diversification failed at Daimler so the new CEO is attempting t reinvent the carmaker at the c

40 SAUDI ARABIA
Religion, sex, and other taboos popping up in cyberspace, perp officials about how to control it

42 COMMENTARY
Are the dollar and the German getting cozy? A modest propos monetary union

44 INTERNATIONAL OUTLOOK
India's pols may be turning ag foreign business, and companie learn from the Enron debacle

Economic Analysis

16 ECONOMIC VIEWPOINT
Becker: The right kind of affir action programs would maximi capital for all

20 ECONOMIC TRENDS
Health care for workers, fewer small-business hiring, Japan-As

ER STORY
ERATOR
e look at the
us empire of
elman,
one of the
dealmakers
page 54

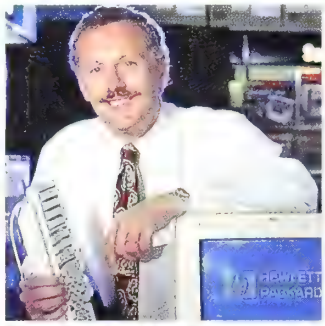
DAIMLER'S DIVE
Diversification didn't work. Now, a new CEO must stop the plunge page 38

BAD NEWS BEARS
Profits will not last, and other dire predictions page 62

GERM WARFARE
The Centers for Disease Control fight viruses–and budget cuts page 72

OSIVE WOES
blast at a
ell test site
a probe page 70

HIKE!
Don't look now, but prices are about to rise page 27



PC BEHAVIOR
Hewlett-Packard's marketing blitz page 74

NESS OUTLOOK
Productivity lifts profits
Why inflation bears watching

ernment

HINGTON OUTLOOK
ife could kill the GOP's chances for
White House in '96

QUIET REGULATORY ROLLBACK
Administration tries to preempt the
deregulatory onslaught by easing
business

rketing

AR DAYS FOR THE JET SET
weak dollar has luxury shoppers
ng to the U.S. for bargains in
er, scarves, suits, and watches

ance

WORLD ACCORDING TO BEARS
g different indicators, they arrive
nilar conclusions: Bail out before
market takes a big dive

QUITE CRICKET
er trading seems rife in the City of
on, and little is being done about it

68 INSIDE WALL STREET
A rosy view of Computervision
Fewer negatives with this camera?
Phoenix sinks its teeth into Ney

91 INVESTMENT FIGURES OF THE WEEK

The Corporation

70 ROCKWELL'S NEW PROBLEMS
Lawsuits and a federal investigation stemming from a fatal accident

People

72 EBOLA: WHO YA GONNA CALL?
C. J. Peters is the Public Health Service's point man against pathogens, but his resources are scarcely adequate

Information Processing

13 TECHNOLOGY & YOU
A review of the new software upgrades to complement Windows 95

74 HP'S MOMENT OF TRUTH
Its master plan for cracking the home PC market is about to be put to the test

76 GLITCHES IN THE SYSTEM AT DEC
As its minicomputers thrive, PC sales and profits dwindle

Science & Technology

77 DEVELOPMENTS TO WATCH
Bombproof pads for buildings, diesel engine's window on cleaner-burning fuel, waste cleans a coal-acid creek

78 ISRAEL'S DESERT BLOOM
The nation is becoming a high-tech haven to rival Silicon Valley

Personal Business

82 EDUCATION: B-school part-time
SMART MONEY: Low-rate credit cards
TRAVEL: The mystery of Machu Picchu

Features

4 UP FRONT
9 READERS REPORT
12 BOOKS
Lowenstein: *Buffett: The Making of an American Capitalist*
89 BUSINESS WEEK INDEX
90 INDEX TO COMPANIES
92 EDITORIALS
Saw the movie? Now fund the scientists
Don't derail the balanced budget
Good numbers are worth a good deal

Up Front

EDITED BY LARRY LIGHT, WITH OLUWABUNMI SHABI

LINDSEY: *Bugged about budget cuts*

FED FOLLIES

A RATE HAWK STARTS COOING

STAUNCH INFLATION HAWK Lawrence Lindsey is sounding downright dovish lately. Reason: Lindsey, the Federal Reserve's most avid supply sider, is worried that $50 billion in fiscal 1996 budget cuts sought by fellow Republicans in Congress could lop 0.7% off GDP growth—a blow to an economy struggling to regain its legs.

That's why Lindsey seems more eager than some colleagues to ease rates again. Other Fed types prefer to wait until after Congress delivers deficit reduction this fall. But Lindsey notes the long lag time for rate cuts to affect the economy: "In an ideal world, if we knew we were going to have $50 billion in deficit reduction, the rate reductions should begin occurring before the fourth quarter."

This switch has made an odd couple of Lindsey, an economist for the Reagan and Bush Administrations, and the Fed's leading Keynesian, Vice-Chairman Alan Blinder, a Clinton White House alum. Fed watchers believe Lindsey joined Blinder in making the successful case for a rate cut at the Fed policy meeting in July. *Dean Foust*

CAPITAL CLOUT

WILL AL SEND A PROTEGE TO THE SEC?

THE CLINTON WHITE HOUSE may make a peace overture toward nemesis Senator Alfonse D'Amato (R-N.Y.) by naming a top D'Amato aide to the Securities & Exchange Commission. As D'Amato's Whitewater hearings wind down, the Clintonites are looking seriously at nominating a counsel from the Senate Banking Committee, which D'Amato chairs.

Urged by D'Amato and SEC Chairman Arthur Levitt, the White House is vetting Laura Unger, 34, a former SEC enforcement attorney who has been with D'Amato for more than four years. She helped prepare last year's Whitewater hearings but hasn't been involved in the current round. "I'd be very interested in the SEC job," Unger says, adding the White House hasn't contacted her. D'Amato couldn't be reached for comment.

D'AMATO: *Big gavel*

There are three openings at the SEC. The White House on Aug. 8 nominated Democrat Isaac Hunt, 57, the University of Akron Law School dean, and Republican Norman Johnson, 64, a Utah lawyer, for two of the spots. *Michael Schroeder*

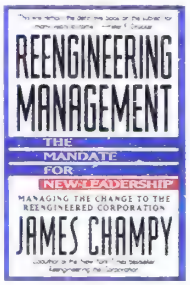
TALK SHOW "Whitewater is a case model in how not to handle scandal."

—House Banking Committee Chairman Jim Leach (R-Iowa), as the panel opened hearings

FUNNY BUSINESS

REENGINEERING THE BEST-SELLER LIST

THE TWO CONSULTANTS WHO apparently manipulated sales to land their book, *The Discipline of Market Leaders*, on best-seller lists were following the boss's example. CSC Index, a Cambridge (Mass.) consultancy, purchased about 25,000 copies of *Reengineering Management*, penned by founder James Champy and released in January, says its publisher, HarperBusiness. Of these, 7,500 were bought, mostly in March, at retail bookstores, with many sales charged to CSC employees, says a CSC spokesman. He denies a concerted manipulation effort but says "a few hundred of the individual sales" appear "inappropriate."



Champy's $25 book debu in April at No. 4 on BUSINI WEEK's list of top biz boo yet never cracked *The N York Times* list. Champy's e lier hit was *Reengineering Corporation*.

Meanwhile, *Times* admitted *L cipline* by Mich Treacy and F Wiersema lik breached its list dirty tricks. By co cidence, the pap says it's ending a consulting job for business side. A *Tim* spokesman says CSC did "good job." Sources close CSC say the *Times* pulled plug on the project's n stage after BUSINESS WEE exposé (Aug. 7) of the *Di pline* maneuvers. *Willy St*

PAPER PLAYS

THAT'S WHY THEY'RE CALLED NET PROFITS

WHO SAYS NOBODY'S MAKING money on the Internet? Just look at the executives of fledgling Internet-related companies. Since May alone, initial public offerings by four Net-related startups—Netscape, Spyglass, Performance Systems International, and UUNET—have made instant millions for at least 36 execs and directors.

Never mind that little significant business is being conducted over the Net, or that only one of the four companies (Spyglass, maker of Net software) is profitable. Even though the startups had combined 1994 sales of just $34 million, investors have sent their combined market cap soaring to about $4.5 billion. Says Michael Walsh, president of c sultant Internet Info, it's l "the early days of biotech.

Take the Aug. 9 IPO Netscape, a maker of so ware to browse and do bu ness on the Net's World W Web. Even though Netsca lost $1.6 million on seco quarter sales of $11.9 milli its $28 offering sparked investor frenzy. The st more than doubled in va its first day. Result: Foun and Chairman James Cla 32% stake—$272 million the $28 level—is now wort cool $566 million. That mal up for his not taking a sal last year. *Robert D. I*

1995 Internet Millionaires

COMPANY	BEST-BENEFITED	HIS STOCK VALU
NETSCAPE	James Clark	$272**
PERFORMANCE SYSTEMS INTL.	William Schrader	$131
SPYGLASS	Tim Krauskopf	$18
UUNET	Rick Adams	$241

*In millions, at market close, Aug. 8, 1995
**Based on $28 opening price, Aug. 9

DATA: BLOOMBERG FINANCIAL MARKETS, COMPANY REPORTS

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Up Front

TECH TALK

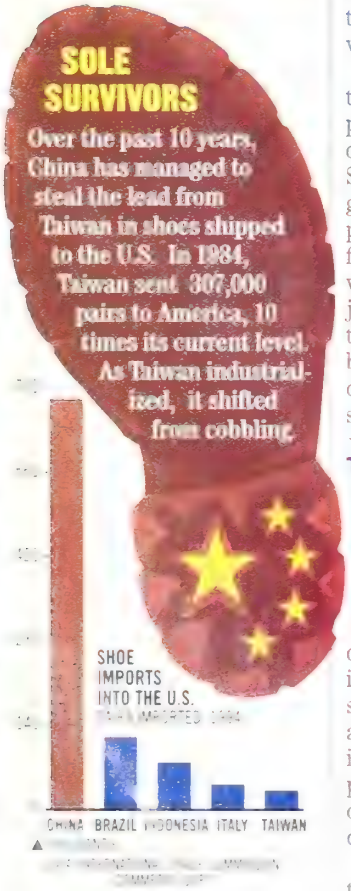
TAKE THAT, YOU LUGARING DOLE

AMERICANS CURSE OUT politicians all the time. Now comes a new computer program allowing them to substitute a politician's name for a dirty word—and circumvent possible federal curbs on cybersmut. Say you want to avoid prosecution for a message describing sexual climax. It would read: "Oh my gosh, I'm Clinton!" Or you can observe: "Life Gores." (Translation: "Life sucks.") The harshest—and most unprintable—sobriquets in the lexicon go to lawmakers who back outlawing naughty words on the Net, such as Senator Jesse Helms (R-N.C.) and Senate Majority Leader Bob Dole (R-Kan.).

In the version of the telecom reform bill, passed by the Senate, everything from posting porn images on the Net to using "indecent" language in E-mail could bring fines or jail. The issue will surface next in the Senate-House conference committee. The stealth smut program was designed by cyberrights activist Robert Carr. He dubs it "HexOn Exon," after the measure's chief sponsor, Senator James Exon (D-Neb.), called an anatomical term in the program, who won't comment.

HexOn Exon, available on the Internet, runs on the Apple Macintosh and can be ordered for free by contacting SmurfBoy@aol.com. The program uses a search-and-replace routine to sub the officeholders' names as code words for dirty words. You just run your X-rated text through the HexOn program before sending it, and the recipient can decode it with the same program. *Amy Cortese*

THE BIG PICTURE



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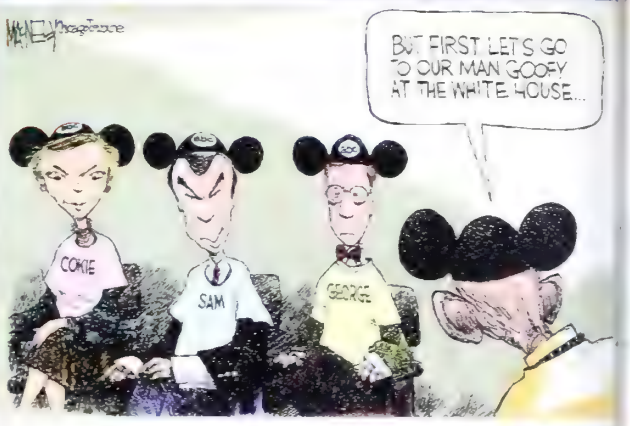

ADULT EDUCATION

MOTOROLA'S SCHOOL FOR PARENTS

MAKING EMPLOYEES BETTER parents is Motorola's latest crusade. The company, where 44% of the workforce have kids under 18, just started a spate of courses teaching the difficult art of rearing kids. Subjects range from early childhood development to raising teens. In the next year, Motorola will roll out courses for such things as "blended" families (two parents bringing their families together) and "sandwich" families (parents caring for kids and aging parents).

Motorola requires every employee to take 40 hours of job-related training yearly, and to foster a better-educated workforce, it helps local schools. But out of concern with how family problems affected its workers, it enli ed consultants to design t new parenting classes, whi count toward the 40 hours. has mailed a booklet to eve employee, *The Role of t Adult in the Life of a Chi* decorated with Motorola ki drawings. One is shown he

The object: to offer prac cal advice, using a group-d cussion format. In the sing parent class, for instan ideas fly on how to unwi with only a little time yourself. Example: rock d to loud music in the car b fore picking up your kid fro day care. *Kevin Ke*

FAMILY: *Kid's-eye view*

TAXES AT WORK

QUICKER MARCH AT THE PENTAGON

PENTAGON CONTRACTING, notorious for its agonizingly slow pace, may finally start double-timing. We're not talking about megabuck weapons systems, which take years and years to produce. At issue are Defense Dept. purchases costing $100,000 or less—98% of all its procurement transactions.

By dint of its vast needs, the Pentagon itself will be the biggest beneficiary of new governmentwide rules encouraging standardized online purchasing. Expected turnaround time from request for bids to award of a contract: as little as 24 hou vs. the previous minimum 45 days. Agencies post not es of pending procuremen and copies of solicitations electronic bulletin boar Contractors in turn use el tronic-data exchange to su mit bids and receive awar

Deputy Defense Und Secretary Colleen Prest who spearheaded the sh knows firsthand h bad the old system w She waited four mont to buy a $40 dictat machine. *Stan Cr*

FOOTNOTES Average yearly income for U.S. households with access to the Internet: $67,000; for all U.S. households: $42,00

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Readers Report

LET THEM EAT USED CARS

In "Taurus" (Cover Story, July 24), Ford's Richard L. Landgraff, who oversaw the car's redesign, says: "If Joe Blow can't afford to buy a new car, I don't give a damn. . . . Let him buy a used car." This quote sums up better than I ever could why I, an owner of a Japanese and a German car, will never buy a Ford. If that is the company's attitude toward potential customers, its attitude toward those who are already customers must be really bad.

Kevin McNelis
Arlington, Tex.

When the next downturn in the U.S. auto industry happens, Ford's managers will have to explain to the shareholders why they designed a car that was more expensive to build, lost Taurus' position as the No. 1-volume car in the U.S., and hurt company profitability. Meanwhile, their Japanese competitors, who have been better at reading consumer trends for years, are making cars that are less expensive, in order to combat their currency disadvantage. If the dollar-yen exchange rate changes significantly, thus lowering the relative cost of Japanese cars, Ford will be in a world of hurt. Joe Blow won't give a damn about the Taurus' more expensive features and will buy a Toyota Camry.

Thomas J. Dailey
Lawrenceville, Ga.

PERHAPS THE ECONOMY DOES MEASURE UP

Your article "Suddenly, the economy doesn't measure up" (Economics, July 31), though useful, presented some misleading information that should be clarified. First, sectoral analysis will not be "nearly impossible." The chained dollars and the Bureau of Economic Analysis' new data on contributions to growth that were mentioned in your article will make sectoral analysis easier and more accurate than the current measure of real gross domestic product, which is biased and overestimates growth in current periods yet underestimates growth in past periods.

Second, although the chained-dollar components will not precisely "add up" to the GDP, they will be off by less than one-hundredth of a percentage point in current periods. For longer periods of analysis, where additivity is a problem, analysts can use BEA's new data on contributions to growth.

Third, BEA does make adjustments for "quality change" for computers and has a program under way to expand these adjustments to telecommunications, computer software, and other products.

J. Steven Landefeld
Acting Director
Bureau of Economic Analysis
Commerce Dept.
Washington

Editor's note: Although there may be some disagreement over emphasis, the

CORRECTIONS & CLARIFICATIONS

"Donald ducks another bullet" (Up Front, July 31) should have said that Donald Trump raised $295 million, not $280 million, for his Trump Plaza casino through a stock-and-debt offering.

In "Japan's mutual funds: Picking your moment" (Personal Business, Aug. 14), all year-to-date returns in the table should be negative.

"Tapping your cash is trickier than you think," which ran in some editions (Personal Business, July 24), incorrectly described rules for nonspousal IRA distribution and excise taxes on retirement plans. Children who inherit an IRA can withdraw the money gradually over their lifetime only if the plan contributor died before age 70½. Otherwise, nonspousal heirs must keep the original owner's payout schedule, and complete it within five years. When you die, the 15% excise tax on your retirement plan applies to amounts exceeding the present value of a $150,000-per-year annuity paid over the remainder of your IRS mandated life expectancy.

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Readers Report

points Mr. Landefeld raises were ma[illegible] in the story.

THE IRS CAN BE YOUR FRIEND

I am very concerned about those ta[illegible] payers in your article "Death to t[illegible] IRS" (Government, July 31) who fe[illegible] they were mistreated. We're really tr[illegible] ing hard to do better. Although upgra[illegible] ing our 1960s technology will provi[illegible] part of the answer, greater courte[illegible] and sensitivity are also needed. We[illegible] working on both.

All taxpayers should be aware of o[illegible] problem-resolution program, or Ombu[illegible] man, designed to put things right wh[illegible] taxpayers feel things are going astr[illegible] Or they can call me.

Margaret Milner Richards[illegible]
Commissio[illegible]
Internal Revenue Serv[illegible]
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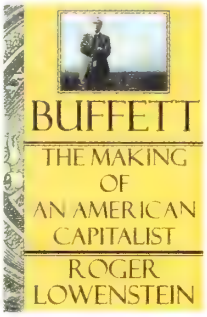
WHAT MAKES WARREN THE ORACLE OF OMAHA



Is Warren Buffett losing it?

For years, investors and journalists have raised that question whenever Warren E. Buffett, quite possibly the world's most successful investor, slips up. Sooner or later, many stock market experts insist, the so-called Oracle of Omaha will succumb to the law of averages. The market, say these experts, is so efficiently priced that consistently beating averages, even by a few percentage points, is devilishly difficult.

Buffett enjoyed a quick $400 million paper gain on July 31, when his 20 million shares of Capital Cities/ABC Inc. soared after the Walt Disney Co. takeover announcement. But that won't quell a recent resurgence of losing-it speculation stemming from soured stakes in USAir Inc., Buffett's worst investment ever, and Salomon Brothers Inc. Conceding "sloppy analysis," he took a $286.5 million pretax charge to write down 75% of his holdings in USAir. Salomon has been floundering in spite of his efforts to revitalize it.

But beware of betting against Buffett. Between 1957 and 1994, his portfolio racked up a compounded annual gain of 28.6%—almost triple the gains in the major stock averages. He has never had a down year. Shares held by Buffett and his wife, Susie, in Berkshire Hathaway Inc., his investment vehicle, are currently worth almost $13 billion.

For all the people waiting for him to stumble, there are many more trying to figure out how he succeeds. Explaining his success is the central focus of *Buffett: The Making of an American Capitalist* by *Wall Street Journal* reporter Roger Lowenstein. Lowenstein is far from the first to probe Buffett's record, and much here will be familiar to Buffett-watchers. As is his usual practice with journalists, Buffett neither assisted nor impeded Lowenstein. The author was able to gain broad access to Buffett's family and friends. Lively, smoothly written, and elaborately researched, *Buffett* is likely to stand as the definitive biography.

Lowenstein casts a wide net. He details Buffett's investment-obsessed upbringing (he was charting stock prices at age 10), his unorthodox family life (his household includes both a wife and a mistress), and his personality quirks (stinginess, secretiveness, a passion for junk food). But the book's core is Buffett's investment philosophy, research methods, and thought processes.

The source of Buffett's approach to investing, as most of his fans know, was Benjamin Graham, an investor-turned-Columbia University professor who, with colleague David Dodd, wrote the seminal 1934 textbook *Security Analysis*. Graham taught that any stock had an intrinsic value independent of the market's valuation. The smart investor, thus, should look for issues whose market value is much lower than the intrinsic value, for eventually the former will catch up to the latter. Buffett's 1973 purchase of a big stake in the Washington Post Co. was classic: a stock selling for a fraction of its liquidation value. "The best thing I did was to choose the right heroes," Buffett once said. "It all comes from Graham."

Although Buffett remains a value investor, his views later diverged radically from Graham's. While Graham remained rigorously mechanistic, Buffett became more subjective. He spends much time analyzing management. He seeks out such intangible assets as brand names and other strong franchises—monopolies, if possible—with pricing power. A key example is Coca-Cola Co., one of his most lucrative investments.

Up to this point, Buffett's philosop parses easily. But the terrain ge murkier. He often violates his own pr nouncements. For example, at the sa time he was railing against junk bon in the 1980s, he bought $440 milli worth of RJR Nabisco Inc. junk.

And then, there are such elemen as sentimentality and serendipity. B fett buys into lots of companies in pa because they are located in Omaha run by friends. For years, he refused close Berkshire Hathaway's ailing text mills, one of his first investments, cause, says Lowenstein, "he felt an fection for this relic of a factory." fact, he doesn't like selling at all. once told BUSINESS WEEK that selling familiar stock was "like dumping yo wife when she gets old." Asked to e plain his purchase of Coca-Cola, Buff replied: "It's like when you marry girl. Is it her eyes? Her personalit It's a whole bunch of things you ca separate." Says Lowenstein: "Buff couldn't derive [Coke's] value from t balance sheet. He couldn't *compute* t value. But he could see it."

For all of his reporting, Lowenste gets only so far into Buffett's brain. curious: Buffett regularly dispatches l ters and reports to Berkshire Hathaw

CURVEBALL: Buffett's rules are clear, but he doesn't always follow them

investors. Like Graham, he relishes, 64, the role of venerable teacher. he hides as much as he reveals. "Mu about Buffett remains obscure," c cedes Lowenstein, who calls him a "m ter dissimulator." Ultimately, the m is unknowable. We'll never really g to the bottom of why he has done well. And, if and when he loses it, won't really know the reason for that ther. My advice? Go back to Grah and do your best to take it from the

BY CHRIS WELL

Senior Editor Welles has been t ing to read Buffett's tea leaves for yea

TEPHEN H. WILDSTROM

HE NEW VIEW NSIDE WIN95

Vill you rush out and buy Windows 95 as soon as it hits the s?

r many people, the an- will depend on whether nuch-vaunted operating m is complemented by oved word processors, dsheets, and other ap- ions programs. That's a eason Microsoft Corp. is g out new versions of , Excel, and its Office of programs on Aug. 24, lay Win95 is launched. using the and Excel up- es for several s, I find the en- ments solid and thought out. I suspect that people, particu- corporate infor- on technology gers, will con- that the im- ements by selves don't justify an im- ate upgrade to 5.

ER FILE NAME. Microsoft rtly a victim of its own ss. The current version fice was introduced just year, and the most-used onents, the Word 6.0 processor and Excel 5.0 dsheet, don't leave much for easy improvement. standard upgrade of Of- 95, which will cost $209 a rebate, also includes versions of the Power- presentation graphics ram and the Schedule+ mation management and scheduling program. A fessional" edition, due fall for $309, adds a new on of the Access database manager. Like its predecessor, Office 95 needs 8 megabytes of RAM to run, and more is better. The standard edition will claim at least 55 megabytes of hard disk space. (Microsoft Works, a slimmed-down software package, will offer $45 upgrades.)

In designing the new Word and Excel, available separately as upgrades for $109 each, Microsoft wisely avoided cramming in new features to programs already facing feature overload. It made the obvious changes to take advantage of Win95, especially allowing file names of up to 255 characters, a vast improvement over the old 8-character limit.

The most important changes are designed to make the programs easier to use rather than more powerful. For example, there has been no easy way to scroll quickly to a specific page of a long Word document or to a specific cell of a big spreadsheet. The new versions add a little box that shows the current page you are working on when you scroll in Word or the current row or column in Excel. Some annoying behavior of earlier versions also has been changed. Excel, for example, replaced a frustrating method of formatting numbers with a simple choose-by-example method.

POWERPOINT PLUS. Word does include truly cool new spell-check features. When you misspell a word, the program underlines it with a red squiggle. Click on the word with the right mouse button and you get suggestions for a correction or the option of adding the word to your dictionary. And if you begin typing with the caps lock on, Word will not only correct the capitalization but also will turn the caps lock off for you.

Unlike Word and Excel, PowerPoint software has undergone a major overhaul. New features include improved support for animation and multimedia presentations and enhanced ability to add annotations and notes during presentations. Schedule+, a completely rewritten version of a program that was formerly part of Windows for Workgroups, now contains powerful tools for maintaining a group calendar.

Fortunately for companies that use mainly Word and Excel, Microsoft has made it easy to phase in the new software. Files produced by the new versions are interchangeable with those of Word 6.0 and Excel 5.0, allowing convenient mixing of old and new programs. If you'll be upgrading to Win95 as soon as it's available, the new Office program could be a welcome and powerful addition. But unless you skipped the most recent previous upgrades of these programs, I wouldn't blame you if you waited to let others tell you about the pitfalls in these latest versions.

BULLETIN BOARD

ELECTRONICS

SILENT FLIGHT

A new device can help make air travel less exhausting. Quiet Zone headsets from Koss Corp. (800 872-5677) won't make the trip shorter or the seats more comfortable. But the headset generates sound waves that cancel out low-frequency noises, such as the drone of the engines and

whoosh of air conditioning, to create an almost imperceptible hiss. There's little or no effect on music or voices—you can use the $199 headset on a portable tape or CD player and the entertainment system on many jets. Or do what I did on a couple of flights: leave it unplugged and enjoy the peace and quiet.

HARDWARE

MODEM CHECK

Several readers have responded to my column on modems (BW—July 10) to point out that some computers will have trouble communicating at 28.8 kilobits per second. But how do you know? From a DOS prompt, type MSD (for Microsoft Diagnostics). Look in the "com ports" section. If the last line, "UART used," doesn't say 16550, you may have trouble handling high speeds. Next step: Buy an internal modem, which bypasses the built-in ports. Or install a high-speed communications board, available at computer stores for around $40.

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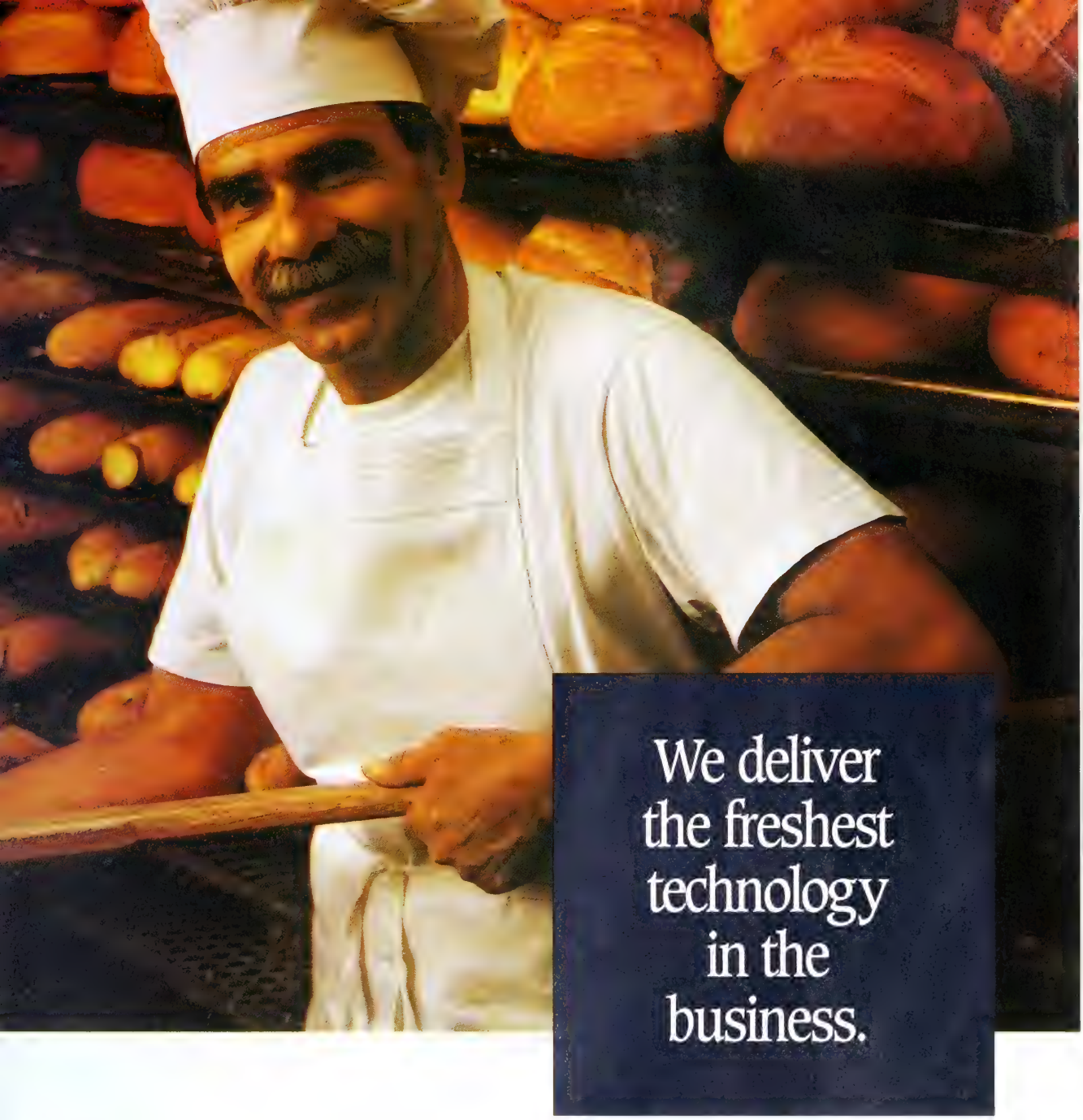

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Fresh Ideas.
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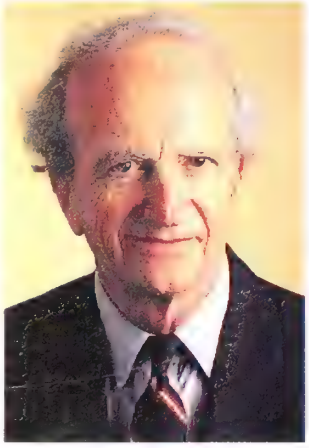
BY GARY S. BECKER

END AFFIRMATIVE ACTION AS WE KNOW IT



FAST START: The best way to level the playing field is to improve education for the young—which would maximize human capital

Affirmative action is a hot issue in the Presidential race. The major Republican candidates are all firmly opposed to it, while President Clinton recently came out with a stirring defense. But it may not be too late to head off a divisive contest—if both parties will support affirmative-action programs that enable people from all backgrounds to compete effectively for better-paying jobs.

Polls show that a clear majority of Americans, including many from minority groups, are opposed to policies that impose quotas and set-asides. Yet they remain committed to civil rights legislation that reduces discrimination against minorities in schooling, training, and employment.

Even effective antidiscrimination laws cannot do much to address the main cause of unequal opportunities among adults: differences in childhood experiences. Some children, many of them not from minority groups, grow up in unstable families and vicious neighborhoods and receive low-quality education and training. The right kind of affirmative-action programs would raise their human capital so that they could gain the skills needed to compete.

CRIME DOESN'T PAY. Many types of human-capital investments could help such children do well as adults. For example, kids from poor families should be given tuition vouchers that they can use to get a decent education rather than having to attend inadequate local public schools. The welfare system should be reformed in ways that keep poor families intact. The crackdown on crime should continue, since it will eventually convince children growing up in slum neighborhoods that crime really does not pay. Programs that provide good diets and medical care for disadvantaged children, which have large payoffs in the long run, should be strengthened rather than weakened.

To be effective, programs for the disadvantaged must begin when children are very young, since their handicaps worsen with age. Public retraining and other programs for unemployed adults often have little effect, because they cannot offset the cumulative impact of bad habits and inferior schooling. Even the best affirmative-action schemes do not bring unprepared minorities up to the level of the students and workers who gain their positions on merit alone.

Universities provide clear evidence of th effects. Data published in *The New Y Times* on June 4 show that, on average, cause of affirmative action, black and H panic students entering the University of C ifornia at Berkeley—the most prestigious p of the California system—had, much lo high school grade-point averages and sco on the Scholastic Assessment Test th whites and Asians. Black and Hispanic s dents admitted through special set-asides much worse, too. The data indicate that six-year graduation rate is only 59% blacks and 64% for Hispanics, compared w 84% for whites and 88% for Asians.

RESENTMENT. The below-average records blacks and Hispanics at Berkeley and ot top universities caused by special admiss standards undermines their confidence. helps to perpetuate the worst stereoty about minorities and feeds the resentm felt by whites and Asians who were not mitted because of minority set-asides.

But the inadequate performance of mir ities in affirmative-action programs has n ing to do with the so-called Bell Curve any other explanation based on the infe mental capacities of minorities. White m also perform below average when they admitted to universities and jobs with qua cations below those of others.

When I was growing up in the 1930s 1940s, black, female, Jewish, or other nority doctors, lawyers, and business exe tives were presumed to be better than av age. Only the best candidates were accep under the limited quotas available to th Affirmative-action programs have rever such judgments about qualifications. The erage minority professional or businessw an is often presumed to be of lower qua than the average white male in a compar position. This attitude has caused consid able resentment among successful memb of minority groups who have overcome stacles to get where they are. Perhaps th why a black businessman, Ward Conne proposed that California abolish affirmat action programs for minority admissions public universities.

It is surely time for quotas and set-asi to go. But Americans should support devo even greater public effort to improving opportunities of minority and other child who come from disadvantaged backgroun

Gary S. Becker, the 1992 Nobel laureate, teaches at the University of Chicago and is a Fellow of the Hoover Institution

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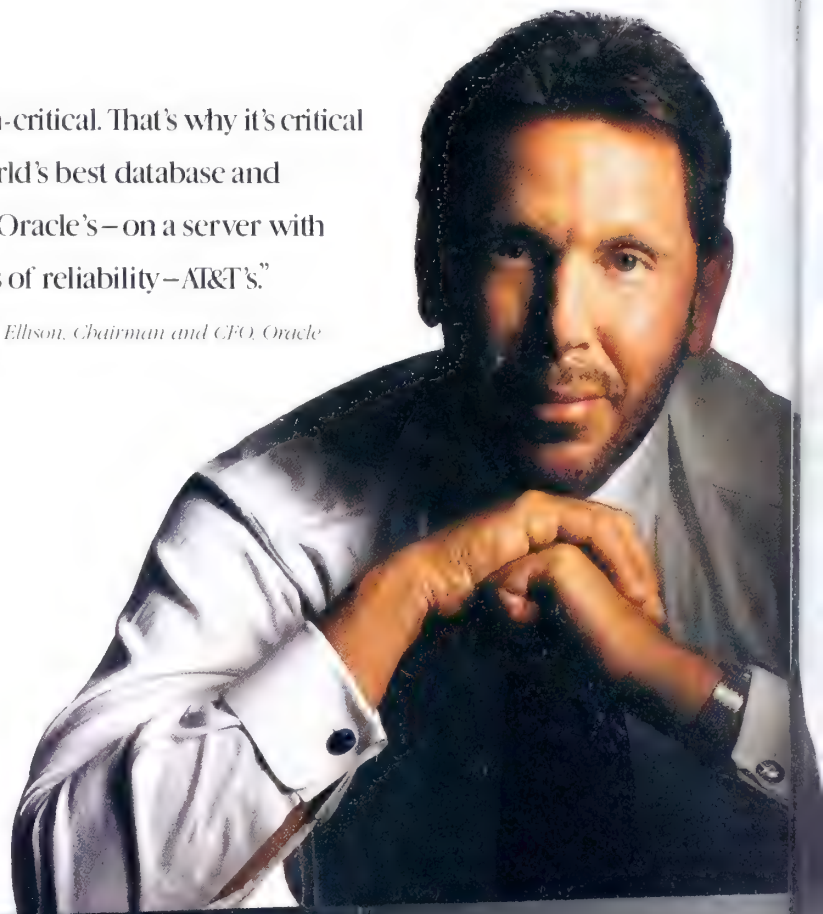
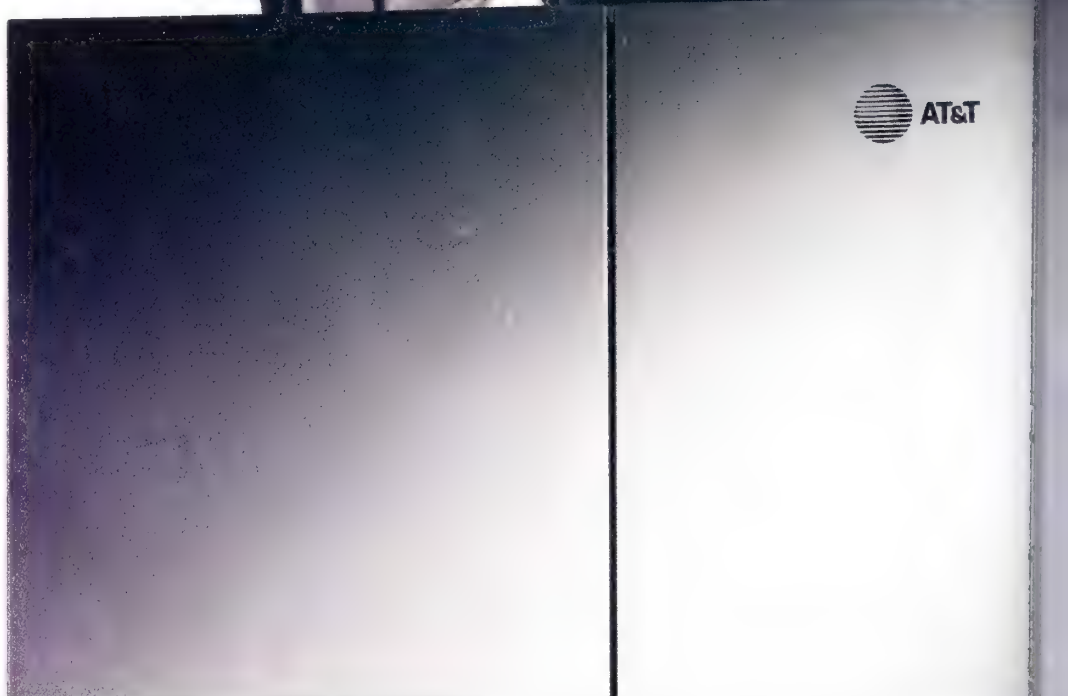




intel inside

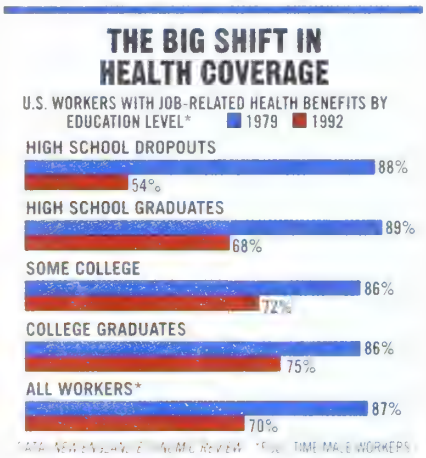
BY GENE KORETZ

BITTER MEDICINE FOR WORKERS

Health care widens the wage gap

Virtually all industrial nations have experienced rising income and wage inequality since the start of the 1980s. However, the U.S. seems to have been affected the most by this trend, which has been attributed to the negative impact of trade growth on the wages of low-skilled, poorly educated workers and the positive impact of changing technology on the earnings of the more educated.

In a new study in the *New England Economic Review*, economist Jane Sneddon Little of the Federal Reserve Bank of Boston argues that the trend toward income inequality in the U.S. is even more pronounced than generally understood. She notes that measures of inequality usually focus on wages and ignore changes in employer-sponsored health coverage. Yet such changes have had a disproportionately damaging effect on the compensation received by workers with relatively little education.



The chart above tells part of the story. In 1979, 87% of all male full-time year-round workers enjoyed job-related health benefits regardless of their educations. By 1992, the level of coverage had shrunk to just 54% among high school dropouts, compared with 75% for college graduates, adding another dimension to the gap between the rewards received by these groups.

If one looks only at the wages of workers with varying educational backgrounds who had health coverage in 1979 and 1992, the picture is even bleaker. Because health-insurance costs have soared since 1979 and because health care is a big part of the compensation packages of less-educated workers, their real take-home pay actually declined. Rising health-insurance costs had a far smaller impact on the salaries of highly skilled workers, which continued to rise.

"In no other high-income country," writes Little, "has the growing cost of health care contributed to rising earnings inequality as it has in the U.S."

A JAPAN-ASIA STORM WARNING

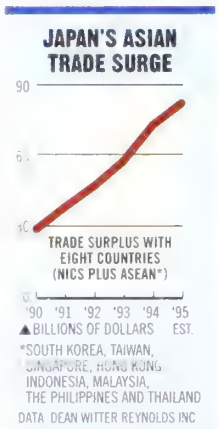
Why trade tension is likely to rise

While a widely anticipated decline in Japan's trade surplus with the U.S. should alleviate tensions between the two nations, economist Joseph Quinlan of Dean Witter Reynolds Inc. thinks Japanese trade frictions with emerging Asia will inevitably grow.

The catalyst, he says, will be Japan's soaring trade surplus with nations in the region. With the four newly industrialized countries (NICs)—South Korea, Taiwan, Singapore, and Hong Kong—this surplus hit a record $63.9 billion last year and is up nearly 20% so far this year, even though Japan's imports from the NICs are booming.

Japan's trade edge with the four leading Association of Southeast Asian Nation (ASEAN) countries—Indonesia, Malaysia, the Philippines, and Thailand—is much smaller, but it's growing a lot faster. With Japan's exports to these nations up 35% so far this year, compared with a 22% gain in imports, its trade surplus with the ASEAN four is running 82% above its pace in 1994, when it weighed in at $8.7 billion.

Behind this picture lies Japan's massive direct investment in Southeast Asia. In the ASEAN countries, this has sparked a huge flow of capital goods to Japanese investment sites. In the NICs, it has led to a heavy dependence on Japanese parts and components. Unless such trends ease, the loudest complaints about Japan's trade policies in future years are likely to come from its developing neighbors.



A DECEPTIVE CLIMB IN WAGES?

Temp hiring may skew the data

July's 0.6% jump in average hou earnings has apparently set the nancial markets on edge. With t gauge up 3.2% over the past year, co pared with a 12-month rise of 2.75% year ago, many participants are w ried that tighter labor markets are fir ly prompting employers to give work larger pay hikes.

Economist Richard B. Berner of M lon Bank Corp. believes the accele tion probably owes more to changes the composition of employment than t genuine increase in wage rates. Ma recent layoffs, particularly in manufact ing, he speculates, involved low-cost te porary workers employed by the p sonnel-supply industry. With relativ fewer temps on payrolls, average p per hour would naturally look higher

In 1993 and 1994, notes Berner, ma employers were hiring temps fas than full-time employees to avoid co mitting to more expensive, harder- lay-off, permanent employees. Now, once-fast-growing share of such temps total payrolls has started to decline.

If Berner is right, gains in avera hourly earnings could well slow again the economy picks up steam, since h ing of low-cost temps will probably celerate as well.

NOW HIRING: SMALL BUSINESS

But labor costs stay subdued

The softness in employment grov appears to be evaporating in key sector of the economy: small bu ness. According to the July survey the National Federation of Independ Business, the group's members ha been strengthening their hiring pla with a net 15% of small businesses pl ning to expand employment in com months. What's more, 25% of all com nies reported that they had one or m jobs that were hard to fill—a rec percentage for the current expansio

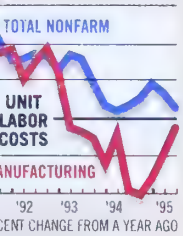
More good news: Despite stron hiring plans, NFIB economist William Dunkelberg notes that labor-compen tion growth among small businesses mains modest. Only 23% reported boo ing wages in July, significantly less t earlier this year.

MES C. COOPER & KATHLEEN MADIGAN

ROFITS PART COMPANY ITH PAYCHECKS

U.S. ECONOMY Weak economy. Strong profits. It's a combination that 't make sense. But in the first half of the year, the my grew at an annual rate of only 1.6% while quarter earnings jumped 30% from a year ago, ed by a surprisingly healthy 19% advance in the d quarter. Last quarter's 0.5% growth in real domestic product was the slowest in 3½ years. w can this be? The answer is Corporate America's less pursuit of low costs and high productivity. quest is clear from the tepid July performance of b markets. And it is especially vivid in the last er's unexpectedly strong gain in productivity, ured as output per hour worked.

OMPANIES KEEP A GHT LID ON COSTS



LABOR DEPT., BUSINESS WEEK

Even as second-quarter output barely rose, many businesses made big cutbacks in payrolls and hours worked, enough to result in a sharp 3% productivity hike. Indeed, the workweek shrank by the most in 15 years. As a result, unit labor costs rose a slim 0.6% last quarter. The trend shows how well businesses are managing costs (chart).

h unit labor costs up only 0.6% during the past as well, and with prices generally rising about 3%, ttle wonder that many companies are able to money hand over fist in even a sluggish economy. pattern is especially true in manufacturing, where abor costs are actually falling.

the second half, companies' cost-cutting zeal has mplications. First, inflation will continue to be a no- in this expansion. And second, because business- em determined to keep hiring and hours worked short leash, economic growth will improve only stly.

THIS INCREASES the likelihood that the Federserve has another interest-rate cut up its sleeve. Fed next meets on Aug. 22 and again on Sept. 26, iven the more mixed performance of the economy tly, another quarter-point cut at one of those pow- seems like a good bet.

er a spate of solid economic news a few weeks he third-quarter data so far look uninspiring. Reng continued cost-cutting, July job growth was including a big drop in manufacturing employ- . That means July industrial output was weak.

By the Fed's own Aug. 9 assessment of economic activity in July in each of its 12 districts, "most regions continue to report economic expansion, although in some areas, the rate of expansion has moderated recently." That moderation suggests more room for a rate cut.

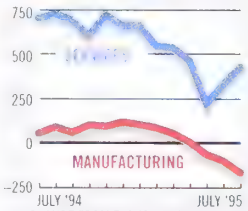
The dollar's new muscle also gives the Fed more leeway to ease. Since hitting a postwar low of 80.63 Japanese yen in April, the dollar has risen 14%, to 91.60 on Aug. 9. During the same period, it is up 4% versus the German mark. Recent intervention by the Fed and the Bank of Japan has been successful in pushing the buck higher, but that's mainly because market forces already increasingly favor the dollar.

Moreover, the Fed also knows that first-half economic growth was even worse than the numbers now show. Based on the Commerce Dept.'s new chain-weighted GDP, which will become the standard for economic performance later this year, the economy grew at an annual rate of only 0.7% in the first half. And any third-quarter growth rate under the current GDP measure will show up smaller with the new numbers. Productivity growth will downshift a notch as well.

ONGOING EFFORTS to keep costs down and corporate profits up will continue to restrain demand in the second half. In addition, the inventory correction, which accounted for much of the second quarter's poor showing, will also be a drag on growth.

The inventory adjustment also played a part in the recent sluggish job growth. Nonfarm businesses added only 55,000 workers to their payrolls in July. And since March, monthly gains have averaged only 63,000, down sharply from 294,000 per month in 1994. The unemployment rate rose to 5.7%, from 5.6% in June.

WHERE PAYROLLS ARE SHRINKING



▲CHANGE FROM THREE MONTHS AGO, THOUSANDS OF JOBS

DATA: LABOR DEPT., BUSINESS WEEK

However, July payrolls showed a sharp split (chart). Service-producing employment posted a healthy gain of 144,000, but manufacturers cut their payrolls by 85,000. That was the fourth consecutive drop in factory jobs and the largest in 3½ years. The sharp decline suggests that manufacturers are still feeling the effects of businesses' efforts to wrestle their inventories into better alignment with demand.

Although the gain in service-sector jobs was respectable, increases in two seasonal, low-paying categories—

restaurants and amusement parks—accounted for 40% of the rise. Moreover, the second-quarter productivity data show that services are also cutting costs and boosting efficiency.

Even amid the slack labor markets, hourly wages did pretty well in July. Nonfarm pay increased by a large 0.6%, to $11.49 an hour. And because the workweek rebounded from its weak second-quarter reading, rising by six minutes to 34.6 hours, weekly paychecks were up 0.9%, to $397.55. That gain suggests that personal income rose in July. Thanks to the tiny gains in unit labor costs, the economy can actually tolerate a bit faster wage growth without inflation worries.

Hourly wages grew 3.2% in the 12 months ended in July, up from 2.8% a year earlier. Even after adjusting for inflation, real wages are growing slightly.

THE RISE IN REAL WAGES, though small, means that consumer buying should continue to advance. The *Johnson Redbook Report* says that discount chains and department stores rang up 1.2% more sales in July than June. Sales then fell 0.9% in the first week of August, partly due to hot weather and Hurricane Erin. Sales of domestically made cars and light trucks, however, fell 6.1%, to an annual rate of 13.8 million last month. That drop suggests that auto makers may have to adjust their inventories further this quarter.

One startling consumer trend this year has been the surge in installment credit. Consumers took on $9.62 b lion in debt in June, on top of a $13.1 billion gain May. Revolving debt, which includes credit cards, r by more than $6 billion for the fourth month in a r

Retailers have not benefited from the borrowi binge. Over the past year, retail sales have grown $10.8 billion, while revolving debt outstanding h mushroomed by $64.8 billion (chart). The gap refle the expanded uses of credit, especially for servic Consumers can use plastic to pay for everything fr college tuitions to airline tickets to medical fees.

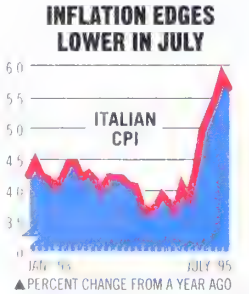
Is all this borrowing signaling distress among consumers? Certainly, some households are overextending themselves. But in general, the indicators of financial well-being, such as delinquency rates and debt-service levels, do not show any problems overall.

Absent financial stress, consumers are likely to maintain a healthy spending pace in the second half. That's crucial in keeping the expansi going, but as businesses keep an eagle eye on costs, j growth is unlikely to return to last year's pace. Wh that will hold demand growth in check, it will a bolster companies' bottom lines.

ITALY

WHY INFLATION BEARS WATCHING

Italy's financial markets have been in a good mood lately. A calmer political climate has buoyed the lira and boosted the odds for a tough 1996 budget. The markets are also heartened by recent inflation news. Consumer inflation dipped to 5.6% in July, from June's 5.8%.



Longer term, though, inflation bears watching because of the lira's vulnerability and upcoming wage negotiations. Also, producer price inflation, at 9% in May, is still rising. After hitting a 25-year low of 3.6% last year, consumer inflation will end 1995 at about 5½%, and it is headed for 6% or more in 1996.

Much of the inflation potential stems from the weak lira, which has lifted import prices and fueled the export-led recovery, thus boosting industrial output and capital spending. Soft consumer demand has offset some of these pressures: Inflation is double the 2.8% pace of hourly wages, so real pay is falling.

Recently, the lira hit a five-month high vs. the German mark, partly reflecting hopes that Prime Minister Lamberto Dini, in office since February, will stay on the job. Dini would like to reestablish the lira within Europe's exchange rate mechanism.

Because chances for early elections this year have subsided, further deficit reduction, following the recent pension reforms, seems likely. Still, parliamentary suppor for Dini is not strong, and political uncertainties will resurface when Parliament returns from summer recess in September.

Wages are another worry. Following the 1992 labor pact, pay settlements are linked to the government's inflation projections, now set at just 2.5% for 1995 and 3.5% for 1996. Wages will grow faster, however, because the pact also allows compensation for the difference between actual and projected inflation. Workers in pa per and publishing, for example, recently agreed to a 5% wage hike beginning in July, and that's still below likely 1996 inflation.

Amid stubbornly high unemployment, wages aren't about to surge. But further monetary and fiscal restraint are crucial for bot the lira and future inflation.

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"I will not be blackmailed into selling the American people's future down the drain to avoid a train wreck. Better a train wreck"

— BILL CLINTO

THE BUDGET

COLLISION COURSE

The possibility of a budgetary train wreck is gathering steam

For weeks, President Clinton and his Republican adversaries in Congress have been sounding alarms about a fall Armageddon over the federal budget. They're conjuring up specters of a government shutdown, 2 million workers laid off—and a default on Treasury debt that would make the mighty U. S. look like a banana republic.

Sure, similar scare talk has surfaced in past budget battles, and the nation has survived brief federal shutdowns without mishap. But the odds of a damaging fiscal "train wreck" seem greater now: This budget fight pits competing visions over the very nature of government, and the combatants are willing to risk a prolonged crisis to prevail. "There's a different feeling this year," frets one longtime congressional aide. "An awful lot of people seem to be looking forward to a meltdown."

That kind of talk has made normally unflappable central bankers nervous. Indeed, top Fed officials worry that the odds are rising that—for the first time in history—the government will default on its debt. However brief, such a default could result in tens of millions of dollars in higher interest payments. One top Fed official estimates that missing payments could push up rates on Treasury securities by a quarter point or more.

OVERBLOWN CONCERNS? Wall Streeters are starting to twitch as well. "You just can't tell where the fallout would stop," says Louis Crandall, chief economist of R. H. Wrightson & Associates, a research firm. "It's the equivalent of shouting 'fire' in a crowded theater." Philip Braverman, chief economist for DKB Securities Corp., figures foreign buyers would be the first to run for the hills: "If holders can't get timely payment, and the bonds don't have liquidity, it does raise a premium overseas."

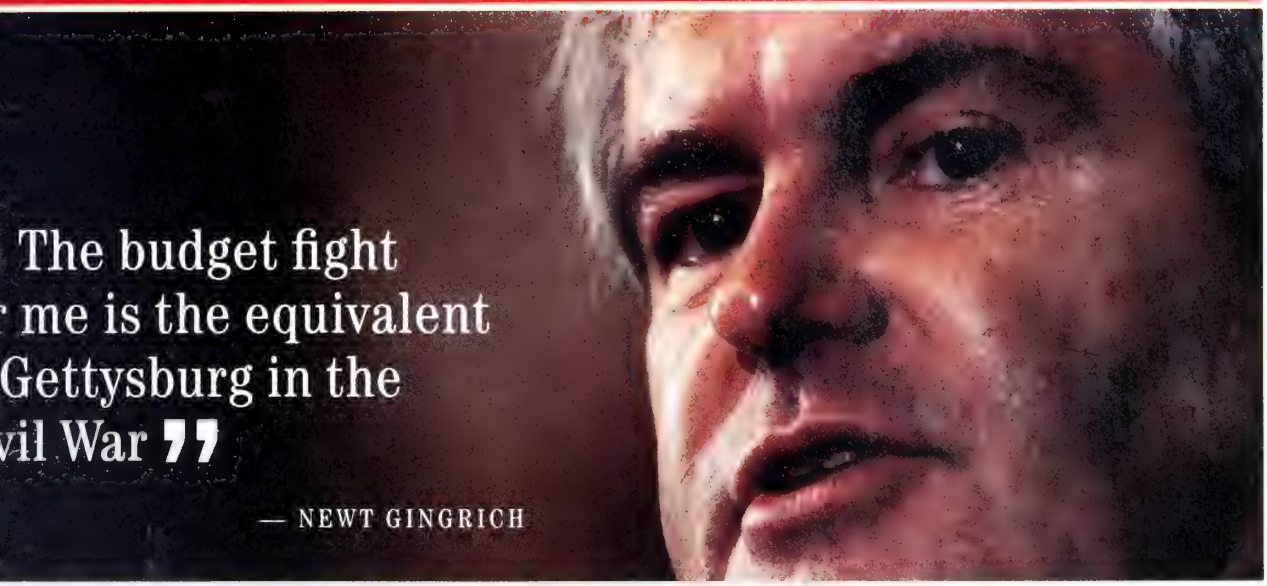
All this concern may prove ove blown. After all, it's not unusual for tw sides headed for an intense negotiati to start off with a lot of bluster. Budg gridlock has forced the government shut down nine times during the past years, although mostly on weekends a never for more than four days. But th year, the principals sound as if they a armed for battle. "The budget fight f me is the equivalent of Gettysburg the Civil War," House Speaker Ne Gingrich told BUSINESS WEEK in a M interview. And Clinton refuses to ba down. "I will not be blackmailed in selling the American people's futu down the drain to avoid a train wre Better a train wreck," he told Natior Public Radio on Aug. 7.

The nut of the conflict: Gingrich Co. have vowed to slash government a dramatically cut taxes—for rich and po alike. Clinton believes that voters want smaller government but that they al want him to save programs such health care for the poor and elderly, ed cation, job training, and environmen protection. He also believes that tax cu ought to be targeted at the middle cla and not the wealthy (table).

Both Clinton and the GOP are co vinced that by heading full-speed do the tracks, they can force the other si to hit the brakes before a collision. R publicans, says White House Chief

Heading For Trouble

Flash points between Presid Clinton and Congress



Leon E. Panetta, "feel they get num leverage if the President ed with a choice between accepting package or a government shut-."

OF WILLS." The feared fiscal crisis d come in two steps: The first d hit in early October and could in a brief shutdown. Most of the nment, except for entitlement pro- s such as Medicare, Medicaid, and re, is funded through annual appro- ons, and many agencies must close ney isn't approved by Oct. 1, the of fiscal 1996. The House has d most of those 13 spending bills. Clinton has threatened to veto six. many ways, this part of the dis- is mere theatrics. The President is g to accept roughly 97% of the e's proposed $270 billion in domes- pending. The differences could be d in a few days. But with an elec- looming, the battle is over more how to divide $8 billion. "This will test of wills," acknowledges one White House aide.

e bigger battle will come over tax- d health care, where a vast gulf ates Clinton and the GOP. Congress complete its so-called reconcilia- bill—the portion of the budget that ols taxes and entitlements—until er. Sometime between late October mid-November, just as Congress and the White House attempt to resolve their differences, the Treasury will hit its statutory debt limit of $4.9 trillion and be barred from borrowing new money. When that happens, Washington will be unable to repay maturing debt or interest on existing paper. In short, the U.S. would become a giant version of Orange County, Calif. "I don't think there should ever be a circumstance in which there's a perceived risk of default by the U.S.," warns Treasury Secretary Robert E. Rubin.

Default not only would hurt U.S. treasuries but also could scramble the derivatives markets, pound the dollar, and seriously squeeze bank liquidity. The Treasury and Fed could delay the crisis a few days by manipulating government accounts, and the White House is looking for ways to avoid default by executive fiat. But odds are that when a big interest payment comes due on Nov. 15, the debt ceiling will have to be increased—or the government will slide into default.

Republicans say they are perfectly willing to set off such a crisis in order to win concessions from Clinton. More than 150 House Republicans have vowed to oppose any hike in the debt limit until Clinton signs off on their plan to balance the budget by 2002. In the Senate, Presidential hopeful Phil Gramm (R-Tex.) vows, "I am going to oppose any effort to simply extend the debt ceiling. If we shut down the government for a few weeks, people may decide they don't want it back. It's not the end of the world."

ANGRY VOTERS. But it could be the end of the GOP's hard-won majority in the House. While a government shutdown and default surely would hurt Clinton, some Republican strategists worry that the crisis could damage the reelection chances of freshmen Republicans who roared in on a tide of voter resentment against a do-nothing Congress. A November shutdown would only intensify that anger. "It would be a triumph of ideology over sound political calculation," says political scientist Steven E. Schier of Carleton College, in Northfield, Minn. "It may cost them their jobs." The winners, in that event, would be congressional Democrats, who would avoid big domestic spending cuts this year and gain seats in the upcoming election.

That prospect, plus pressure from Wall Street and Main Street, could bring Clinton and the Republicans to the negotiating table before a full-blown crisis. But as time drags on and rhetoric heats up, it seems likely that they won't begin talking until after a smashup.

By Howard Gleckman, with Dean Foust, Susan B. Garland, and Mary Beth Regan, in Washington

TION House Republicans uce funding for the Presi- vorite top education program, 00, by 80%. Clinton would pending on the program.

MEDICARE Congress wants to slash projected Medicare spending by $270 billion over seven years. Clinton proposes trimming the program by only $124 billion.

TAXES Congress would cut taxes by $245 billion over seven years. Clinton backs cuts of just $100 billion, mostly targeted at America's middle class.

AWAITING THE WORD: *The bill passe the House on Aug. 4*

CONGRESS

ROLL OUT THE TELEPORK BARREL

Special-interest provisions pack the telecom-reform bill

When it comes to rewriting the nation's telecommunications laws, Representative Michael G. Oxley (R-Ohio) is showing his colleagues a thing or two about constituent service.

Just ask Joel S. Rudich, chief executive of Columbus-based Coaxial Communications, which serves Oxley's district. Rudich persuaded the vice-chairman of the House telecommunications subcommittee to slip in several provisions specifically designed to exempt Coaxial—which isn't mentioned by name—from a rule barring phone companies from buying cable companies in the same market. Without the provision, Rudich feared that the value of his franchise might plummet. One lobbyist calls the situation "a classic purple cow—a unique beast, describing only one situation in America."

BACKROOM LUAU. Oxley's amendment is one of a slew of special-interest provisions embedded in the telecom-reform bill that passed the House on Aug. 4. Dozens of companies have cut side deals that could give them an extra boost should the bill pass this fall. Capitol Hill wags already have a name for this high-tech largesse: "telepork"—changes that may be worth millions to their often-hidden beneficiaries. There are "certainly a lot of provisions that could squeal if you poked them," says one Senate staffer. Asks Representative W. J. Tauzin, (R-La.): "You're not surprised, are you?"

Some of the backroom deals advance public policy, the lucky companies insist, even if they may benefit only one outfit. Consider the case of AirTouch Communications, the wireless spin-off of Pacific Telesis Group. Earlier this year, the Justice Dept. ruled that AirTouch was barred from entering new businesses such as long distance. That angered antiregulatory Republicans, who argued that AirTouch was spun off in 1994 to free it from such restrictions.

So when AirTouch lobbyists asked for a special deal from the House, they found a receptive audience. While no one has claimed parentage for the amendment, the House bill frees all companies that have purchased "wireless exchange assets previously owned by a Bell operating company" from court restrictions. Of course, AirTouch is the only company in the United States that fits that description.

> Dozens of companies have cut side deals that could give them an extra boost

A special favor? Sure. But the mo could help others, an AirTouch spoke woman argues. Pacific Telesis Chairm Philip J. Quigley defends the amer ment, too: "While it's targeted at A Touch, it has broader implications."

PUBLIC WORKS? Then there's Appa chian Power Co. Representative Richa Boucher (D-Va.) insists he was trying serve the public good when he went bat for Appalachian, his local utili Boucher inserted an amendment in la year's House bill that would allow A palachian's parent company, Americ Electric Power Co., to enter the pho business. Boucher says his provision w benefit not only Appalachian but 13 o er utilities and enhance competition the phone business. "This is one of th rare instances where good public pol intersects with helping a constituen he says.

Some pork could potentially split c alitions. The Bell companies are furio that one of their own, Ameritech, c get into the alarm-monitoring busine while the rest face up to a six-year wa The House and Senate bills both e empt Bells that bought alarm comp nies before Jan. 1, 1995. And ther only one, Ameritech, which bought C cago-based Security Link last year.

A few special deals appear to be d signed to settle old scores. Time Warn Inc. has been engaged in an eight-ye battle with Liberty Cable Inc., a sm wireless cable operator in New Yo City. Now the cable giant has figur out a way to clobber Liberty, than to Representative Dan Schaefer (Colo.), a big cable backer whose distri is headquarters to Tele-Communicati Inc. Time Warner won a provision th would immediately give cable operato vying for apartment-building contra much more pricing flexibility than th now have. And nowhere are there m of such buildings—or peskier upstarts than in New York. Time Warner d clined to comment, but Liberty CEO P ter O. Price is fuming: "This is the le subtle deal on Capitol Hill in a centur

Of course, some special provisio could be squeezed out when lawmak convene a conference on telecom legis tion after Labor Day. But the betti now: Telecom reform will come wit heaping side of pork.

By Mark Lewyn in Washingt

ILL CONSUMERS KE A HIKE?

e rises are widespread, but many companies are edgy

ank A. Olson knows how tough it s to push through price hikes in a ow-inflation economy. The Hertz . chairman has just boosted his any's car-rental prices by $5 a day, e's hoping against hope that the in- es stick. "This is our sixth try in 20 hs," Olson laments.

price hike, he figures, will have to -one of these days. And Olson isn't nly CEO trying to make that day . In the past few weeks, companies verse as Hertz, Anheuser-Busch, ral Mills, and Hearst Magazines announced increases. Stickers have risen on everything from airline ts and paper towels to wallboard dynamic random-access memory (DRAMS). "Most of these increases eally delayed reactions to cost pres- [that companies] started feeling to six months ago," says Donald jczak, director of the Economic casting Center at Georgia State ersity. "They simply couldn't pass on then. They feel they might be to do it now."

ight" is the operative word. With economy growing at only 0.5% in second quarter and with inflation y at about 3%, many hikes are be- nade on a wing and a prayer—often e face of rising materials costs. rental companies, for instance, say costs have more than doubled in past three years, while rates have ined nearly flat. Hearst cites a 37% ase in paper costs in the past year, a 12% hike in postal costs since ary. At Ralcorp Holdings Inc., mak- Chex, Cookie Crisp, and Ralston sli cereals, it's higher grain and aging costs. Anheuser-Busch cites expensive materials for its average of 15¢ per six-pack, scheduled for markets this fall.

NG TO A HEAD. Success at raising s, however, may depend more on lynamics of specific industries than e strength of the overall economy. shing, for instance, is finally coming of its long slump. "Any time you an uptick in demand, which is cer- the case in magazines, you are to try for a price increase," says en N. Barlow, an analyst at Smith ey Inc.

the beer industry, the popularity of ium-priced brews and the even higher-priced microbrews has raised many consumers' price threshold—giving Anheuser-Busch Cos. a license to hike prices. Thanks to strong demand, net cement prices are up 8% in a year, to $59.81 per ton, for the quarter ended June 30, says Arthur R. Zunker Jr., CFO of Centex Construction Products Inc.

WONDERING IF THE INCREASES CAN HOLD

ANHEUSER-BUSCH (St. Louis) It will raise beer prices an average 3.5% in some markets in October because of rising materials costs.

AMERICAN, DELTA, UNITED, ET AL. In the past year, airlines have lifted fares an average of 7% as cut-rate competition has abated.

CENTEX CONSTRUCTION (Dallas) Its cement prices are up 8% from last year, to $59.81 a ton. U.S. capacity is constrained.

HERTZ (Park Ridge, N.J.) On June 25, it raised rental rates by $5 a day, to about $50 for a typical midsize car, to offset higher purchase prices.

Even the beleaguered airline industry is getting a break this year—in spite of an August fare war.

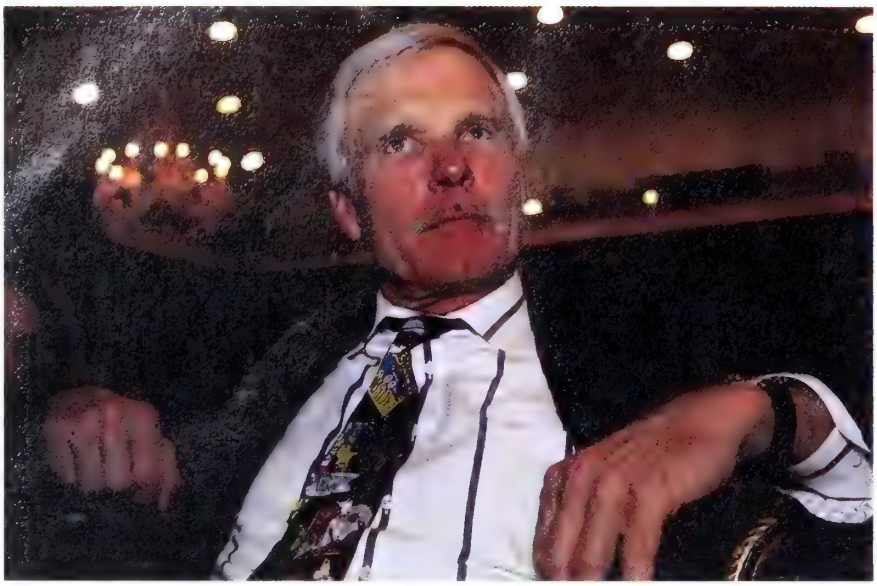
Another reason companies are moving now: Many have done all the cost-cutting they can. "I'd rather get a dollar of efficiency than a dollar in price," says Hertz's Olson, but there's no more room to cut. For now, the major rental companies have followed Hertz's move with some hikes. But if one big rival pulls back, the others may follow.

Some companies are trying stealth hikes. Rather than pass on the 59.6% increase in pulp costs, Scott Paper Co. revamped its Scott Clean paper-towel brand, reducing the number of sheets in its smallest roll from 96 to 60, then repricing the roll at just 10¢ less. Scott says it also improved the quality of the towels.

WARY SHOPPERS. Still, in most industries, this is hardly the time for aggressive pricing. In fact, fewer companies expect to raise prices during the third quarter than was the case during the second quarter, according to Douglas P. Handler, director of research at A. C. Nielsen Co. A comparison of the inflation rate with Nielsen's "optimism index" (percentage of companies that expect to raise prices minus the percentage that expect to decrease) shows many hikes aren't sticking.

A major reason: Shoppers are reluctant to pay full price, says Shawne C. Mastronardi, director of retail marketing services at Kurt Salmon Associates. In a recent survey, 91% of consumers said they wondered if they were paying too much when they paid full price. "Consumers in general are exceptionally resistant to increases in prices, and no maker of consumer goods has been able to get away with large increases," says Handler. Not exactly words Frank Olson and his colleagues want to hear.

By Amey Stone in New York, with Joseph Weber in Philadelphia, Richard A. Melcher in Chicago, and Gail DeGeorge in Miami



ROADBLOCK Turner is working on a complicated plan to get around Time Warner's veto power over any major deal

MEDIA

WHY TED CAN'T TAKE HIS EYES OFF CBS

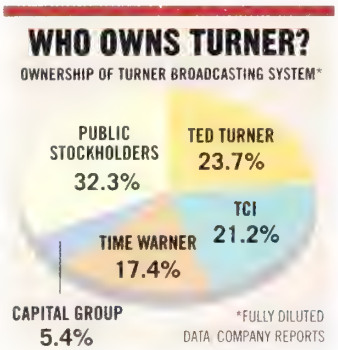
Word is that if he can't beat Westinghouse, he may try to join 'em

If Ted Turner had received a dollar over the past couple of years for every news story predicting that he would soon buy a major television network, he would easily have the billions needed to purchase, say, CBS. Unfortunately, greenbacks are harder to print than headlines—which is why Turner remains on the bench, still itching to join the recent media buying frenzy.

Not that he isn't trying. Following a week in which two of the Big Three networks changed hands in a $24.4 billion flurry of dealmaking, Turner is working every angle to line up money for a run at CBS Inc. Since the Tiffany Network is betrothed, if not actually hitched, to Westinghouse Electric Corp., his courtship is complicated. But a source close to Turner says the Atlanta media magnate has enlisted the dealmaking advice of Michael R. Milken, the former junk-bond wizard. Other sources say both Turner and his biggest shareholder, Tele-Communications Inc. chief John C. Malone, have talked with Westinghouse Chairman Michael H. Jordan about investing in the Westinghouse bid.

Whether Turner can link his Turner Broadcasting System Inc. to CBS or any other network is a definite long shot. His first hurdle is Time Warner Inc., which owns nearly 18% of Turner Broadcasting. Time's chairman, Gerald M. Levin, who has veto power over any big deal, has made it plain he wants Turner to buy out Time's stake—worth about $1.2 billion on the stock market—for a premium of $1.6 billion.

Turner's solution to the Levin problem is typically Byzantine. He'd like to buy King World Productions, the syndicator of *Oprah*, *Wheel of Fortune*, and *Jeopardy!*, with Turner Broadcasting stock. A deal, which might come in above $1.5 billion, would give Turner access to King World's more than $500 million in cash, as well as what PaineWebber analyst Christopher P. Dixon says is $150 million in annual cash flow from contracts with TV stations. That money could offset the per-share dilution of issuing the new stock needed to pay for King World. The station contracts, meanwhile, could be leveraged to raise cash to pay off Levin.



The problem, sources say, is that Turner's board worries that King World's shows are aging. And Oprah Winfrey herself can pull out if ownership changes. Moreover, the hour before prime time once reserved "first-run" syndi tions such as Ki World's programs cently was returr to the networks i federal rule chan Turner, however, mains unbowed.

Even if he can j tison Time Warn most on Wall Str think it's unlik Turner could co plete a deal for CBS. Key consideratio The Westinghouse deal has a $150 n lion breakup clause, and CBS Chairm Larry Tisch is no Turner fan.

So Turner and Malone may be try to convince Westinghouse Chairman J dan that he could reduce his risk letting them invest in his deal. T Westinghouse bid "can't close months yet," says one source close the situation. "It will dawn on th Pittsburgh guys that they need to more than just string together their stations with CBS'." This source s Malone first approached Jordan w the idea in late July, and Turner been talking to him since. None of companies would comment.

SIREN SONG. It is highly possible t nothing will happen with CBS. Inde there's no real reason anything has happen. Turner is asset-heavy on own: It has strong cable networks growing movie business, a rich film brary, and lots of sports programmi Cash flow should hit $600 million t year. Still, the siren song of syne makes Turner wan network: Combin CNN and CBS Ne alone would save $ million in costs. "Big in itself is not bett says Turner Enterta ment chief Scott M. S sa. "It comes down vision and ability to e cute against that visi

Some think Tur should just give up c trol and sell out to N which has been aggressively buying tions and on Aug. 7 plunked down $ billion for rights to the 2000 and 2 Olympics in Sydney and Salt Lake C "My sense is that he's going to play his hand with CBS," says NBC Chairm Robert C. Wright. "We'll see what h pens." As Wright well knows, Tur usually has another card up his slee

By Michael Oneal in New York a Ronald Grover in Los Angeles

D SEPARATION ANXIETY
T EDS

e of GM, it will have a chance to soar higher

ince its acquisition by General Motors in 1984, Electronic Data Systems Corp. has increased its reve- from $786 million to an estimated billion this year. Its market value climbed nearly tenfold, and the techgy behemoth has snapped up comes worldwide, from management ultant A. T. Kearney Inc. to Europeutsourcing expert SD-Scicon.

nd that's before EDS was cut loose its staid corporate parent. On Aug. e auto maker announced that it will to spin off EDS in a tax-free exge of stock for holders of GM's Class hares, which represent a stake in s earnings but no claim to its assets. ty of obstacles remain before a deal be completed early next year—prily approval from the Internal Rev- Service—but independence promisto bring EDS, based in Plano, Tex., richer growth opportunities.

veryone should come out a winner if deal works. GM, which bought EDS founder Ross Perot for $2.5 bil- is determined to center its focus its capital on its still-ailing autoive business. It will continue to efit from EDS's services through a -term contract. And, with its pen- fund holding about 30% of the s E stock, GM stands to gain if an idled EDS can grow faster and boost tock price.

WINNER. The fund, which still is an nated $5 billion to $7 billion in the will gain $150 million for each dollar stock rises. Already, Class E shares ped 7%, to around $47, on the spinnews. GM also may get a one-time lend from EDS as part of a separa- agreement. "[Former GM Chairman] er Smith made one of the great inments of the 20th ury," says Morton H. erson, chairman of l Perot Systems o. and a former top executive.

ut the big winner is and its chief execu-, Lester M. Alber- Jr. "Independence ns greater access to tal," says analyst Da- M. Togut of CS First ton Corp. That ns EDS will be able to finance acquisitions with its own stock, gain flexibility in structuring joint ventures and alliances, and raise capital more easily for its giant outsourcing deals. In those contracts, EDS typically buys out a customers' data processing assets before it takes over operation of the data centers and network. Togut now expects EDS's earnings growth to be several points higher than the 15% annual rate he had projected for the next five years.

Where will EDS flex its newfound muscle first? Telecommunications companies are still at the top of Alberthal's wish list. Indeed, EDS's failure to ink a merger agreement with Sprint Corp. last year helped drive home the need to split EDS from GM. The deal foundered in part over how to value the Class E stock. EDS also failed to reach a deal with British Telecommunications PLC in 1993, also because the two sides wrangled over the value of the shares.

Alberthal-watchers expect EDS to form alliances with telecom partners worldwide, instead of pursuing outright mergers. "I think [EDS] really relishes its independence and wants to run as an independent company for a while," says analyst William D. Rabin of J. P. Morgan Securities Inc. EDS says it will consider all options and all telecom partners, including the Baby Bells, which could soon be free to pursue the long-distance market under deregulation being considered by Congress.

EDS gets 74% of its revenues and 81% of its operating income from the U. S., so it is on the prowl for information management consulting companies abroad, particularly in Asia.

Closer to home, Senior Vice-President Gary J. Fernandes says the company will expand its presence in electronic commerce, serving both corporate and individual customers. For instance, it is working with SpectraVision Inc. to deliver movies and other programming to hotels through a digital, video-on-demand system. EDS hopes such deals will position it to be a major player on the Information Highway.

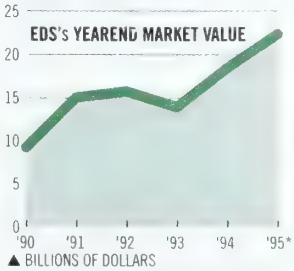
JUICY DEAL. EDS also plans to expand in one of the industries it knows best: autos. With GM as its owner, it has been shut out by such rivals as Ford Motor Co. and Chrysler Corp. In the past decade, it has won only a small contract with Porsche, says Fernandes. He figures the market for information technology services in the auto business, excluding GM, is a juicy $150 billion worldwide.

Of course, EDS is not cutting all ties to GM. As part of a split-off, the two intend to negotiate a long-term contract, perhaps 10 years, so that EDS will keep its GM business at essentially the same terms it has now. GM is expected to account for about 32%, or $3.8 billion, of EDS revenue this year. That's down from more than 50% in 1990, but still a nice chunk of change. EDS may leave home, but not empty-handed.

By Wendy Zellner in Dallas, with David Woodruff in Detroit and Heidi Dawley in London

WISH LIST CEO Alberthal is said to relish independence –and telecom alliances–for the technology giant

BIG BUCKS SPIN-OFF



*BASED ON AUG. 8 SHARE PRICE
DATA: BLOOMBERG FINANCIAL MARKETS

CALIFORNIA

SILICON VALLEY: HOW SWEET IT IS

A sunlit spot in the gloom of California's slump

Gino Blefari loves stock options. Not that the Silicon Valley realtor owns any. But the high-tech execs who shop for homes at his Contempo Realty branch in Cupertino certainly do. And this year's extraordinary runup in technology stocks—chip stocks are up 93%, software 40%—has given a long-awaited boost to the housing market in this island of California prosperity. "My clients are watching their stocks doubling, and doubling, and doubling again," Blefari crows.

While most of the Golden State deals with persistent economic problems, happy days are back in Silicon Valley. Just consider one of Blefari's most recent sales. An executive at network-switch builder Stratacom Inc. plunked down $1.1 million for a hillside home in tony Saratoga, moving up from a $740,000 number. "His salary hasn't gone up much," says Blefari. "But his equity in Stratacom has grown quite a bit." Todd Hill, a salesman at Ferrari of Los Gatos, sees similar euphoria. "The new Ferrari market is booming," he says.

BOOM: *Adobe Systems is building 350,000 square feet of new office space*

SUPERHOT. In the Valley, even trickle-down economics seems to work. Lower-level employees, who also take some of their pay in stock options and grants in this enclave of entrepreneurism, are spending big, too. Kristin Laymon, a 29-year-old marketer for the superhot networking company Cisco Systems Inc., thought she might never be able to afford a California home. But she recently pooled her stock gains with a friend to buy one. How many fellow employees are doing the same? "Zillions," she says. Looking out the window at the Cisco parking area, Laymon says: "I see lots and lots of new cars out here. And I see new Harleys, lots of new motorcycles."

The consumer boom sparked by stock runups is the frothy topping on a cake that started baking last fall, when the Valley perked up after years of flat results. After the most recent peak in 1990, Silicon Valley lost nearly 40,000 jobs, as the aerospace industry tanked, military bases closed, and manufacturing jobs moved to cheaper states and overseas. But job growth is rising fast in the Valley—even as the state's economy can't seem to get cooking (chart).

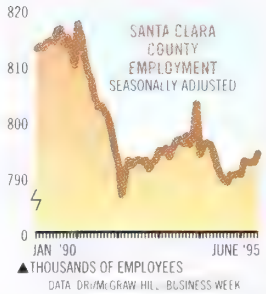
The statistics are remarkable. In recent months, Santa Clara County, the heart of the Valley, has added 6,000 jobs, bringing the total back near the peak of 800,000. The county's unemploy ment rate stands at 5.4%, compare with 7.9% in the state as a whole. Sinc January, classified ads in the *San Jo Mercury-News* are up more than 40 vs. the same period last year.

The plummeting vacancy rate fo commercial real estate has create "probably the hottest market in th country right now," says Michael Evans at Ernst & Young. Office vaca cies along the peninsula south of Sa Francisco dropped from 6% to 5.4% the second quarter, says Evans. Th compares with rates of 10% to 13% healthy cities such as Portland, Ore and Phoenix, and about 16% statewid in California. Valley rents rose near 7% from the first to second quarter to $24 a square foot. That compare with just $18 early last year.

ONCE BURNED. The tight squeeze isr surprising, given that there has bee virtually no new commercial constru tion in the Valley during the past nin years. Even now, banks that wer burned by bad loans in the 1980s are r luctant to finance commercial-develo ment loans. So companies are buildir to suit, many using off-balance-sheet nancing so their earnings aren't hur Graphics software maker Adobe Sy tems Inc. is one of many companies th is expanding: It's putting up 350,00 square feet of new office space in Sa Jose and could add as much as 420,00 more by next year.

Residential real estate is picking u too. Already, prices are higher in th poshest Valley locations. Coldwell Ban er Corp. says the average price of four-bedroom home in ritzy Saratog has risen 11.1% in the past six month to $619,000. Then there the jam-up in the apar ment market. Keith Guericke is president Essex Property Trus which owns 2,000 mul family units in the regio Engineers flooding from out of state hav boosted rents by 4% aft four years of no increas at all, he says. "We' 98.9% occupied."

TICKING UP



Of course, all this a tivity could be a signal that the hig tech bubble is about to burst. "Ma of us are nervous over the level reach by initial public offerings and technolo stocks," says Richard C. Carlson, cha man at Spectrum Economics. "It is ve unlikely that this will last an enti year." Party hearty, Valleyites.

By Russell Mitchell in San Francis

EATHERING THE EATHER MARKET

ıer Nature, not demand, lling the shots on prices

weather hasn't exactly smiled on issouri farmer Robert Sweany ely. First, spring downpours flood- corn and soybean fields. Then, a er heat wave baked them rock- Even if Mother Nature cooper- rom now on, the farmer expects meager fall harvest. "Once the nes start rolling, I don't think the going to be there," moans the r-old Sweany.

this poor growing season, you think crop prices would be head- yward. Think again: A sprinkle lwestern rain recently sent corn ybeans plunging in a panicky sell- th traders worrying that the har- ight be better than expected. The t is confounding farmers and oth- erts who expected tight supplies rong demand to keep it rolling. market is totally following the er and paying attention to nothing says analyst Daniel E. Markey of Analysis Inc. in Evanston, Ill.

come to a "weather market," a few raindrops can count for han the informed outlook for corn oybean shortages. The latest er forecast is still driving prices, hough many conclude it's too late urrect a decent crop after the a of the past few months. When ours turned the nation's bread- into a quagmire this spring, it sense to eschew conventional mar- ta. The rains delayed planting for th, setting the stage for an awful Farmers in the waterlogged south- rain belt cut back their acreage vitched to fast-growing seeds that ce smaller yields. A July heat made matters worse: Corn prices l to $2.96 per bushel, up 28% for the year, and soybeans to $6.55, up 17%.

SHOW ME SOME CORN: *Missouri farmer Sweany*

Then, pandemonium hit the crowded trading pits, touched off by nothing more than a few scattered showers and a modest break in the heat. Sensing a reversal, commodity trading advisers—the mutual-fund managers of the futures business—turned bearish all at once. Their mass selling put extreme pressure on prices, even though the basic outlook for the size of the crop and for demand had barely changed. "When the trends reverse... markets often overreact," says John P. Lass, president of Everest Asset Management Inc., a Fairfield (Iowa) trading firm. By Aug. 7, corn prices had fallen 8% from their high, and soybeans 9%.

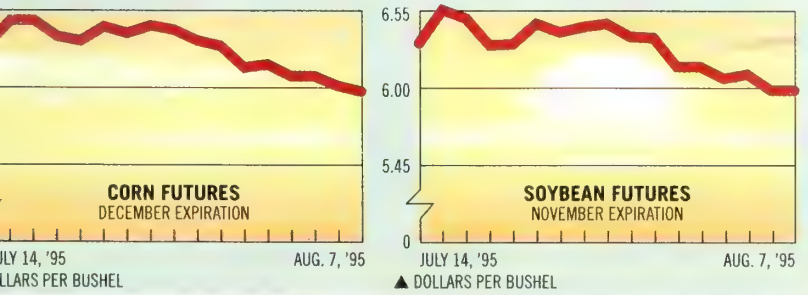
NEW CUSTOMERS. Fundamentals should support higher prices. Robust demand in the U.S. is being bolstered by an enormous surge in exports—up nearly 20% from last year, to an estimated $51.5 billion. China, once Asia's supplier, has reduced its exports and begun importing U.S. grain to feed its expanding livestock herds. China's longtime customers such as South Korea, Indonesia, and others in the region also are turning to the U.S., whose battered farm belt is unlikely to produce enough to meet demand, analysts say. But the weather-obsessed markets are slow to get that message. "Demand is not like a drought that snaps you on the behind. It takes time to build," says analyst Daniel W. Basse of Chicago's AgResource.

The dismal supply picture also has been somewhat overlooked by the weather worrywarts. U.S. corn and soybean supplies have tightened significantly during the past six months. The robust 1994 harvest is all but used up: The Agriculture Dept. predicted in July that corn stockpiles would fall to 725 million bushels, the lowest level in 12 years. Some analysts believe the cushion will be even thinner—as little as 183 million bushels. "We see supplies approaching record lows," predicts analyst David Nelson of NatWest Securities Corp., who also expects tight soybean stocks. Warns farmer Kurt Lehman of Slater, Iowa: "It could be very tight. We're definitely not sitting on a lot of grain."

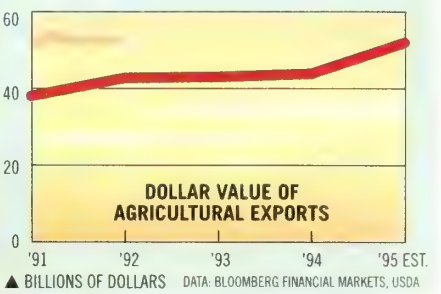
Not all farms are suffering, though. The crops in northern Iowa and southern Minnesota look good. And if prices were to rise dramatically, it might take the edge off the world's appetite for U.S. crops. But many perils remain: Fungus, blight, or insect damage spawned by the erratic weather could cut yields. Excessive heat, which hampered corn development earlier this season, could prevent soybean pods from thriving as well. And because crops that are planted late tend to be harvested late, an early frost could be devastating. "There could be a lot of problems people don't see now," Sweany says. The weather won't salvage a poor crop, but could make it worse. And if those problems become obvious, watch for sharply higher prices at harvest time—no matter what the weather looks like.

By Greg Burns in Chicago

SUMMER 1995: CROP PRICES ARE SLIPPING...



...EVEN WHILE EXPORTS BOOM



LAWSUITS

BOILING MAD

Food chains are awash with suits over hot-drink burns

Remember that infamous lawsuit a year ago against McDonald's Corp., in which an 81-year-old New Mexico woman was awarded $2.9 million—later reduced to $640,000—after she scalded herself by spilling hot coffee in her lap? Well, more litigation is brewing.

Fast-food chains are being beset by suits over hot-drink and food spills. About a dozen such actions are pending, and plaintiffs' lawyers claim scores more are about to be filed. "I get three to four calls a week," from other lawyers and potential plaintiffs, says S. Reed Morgan, the Houston lawyer who filed the original case. He is pursuing four additional suits.

USE CAUTION. The rash of litigation has companies from McDonald's to Starbucks Corp. scrambling to limit their potential liability. In addition to printing cautions on its coffee cups, McDonald's now posts warning signs at its drive-through windows and coffee refill stations. Wendy's, Hardee's, and Burger King added hot-drink warnings to their cups (and chili containers, in Wendy's case) in the past year. Starbucks has warnings on its cups and now also trains employees to tell customers to be careful.

But restaurateurs still may have a hard time prevailing n court. They argue t coffee must be ser d at a scalding 180F o 190F for taste r sons—and so it w cool down too fast. Donald's used such guments in the N Mexico case and l anyway. Warning lab don't help much, either: Donald's first placed th on its coffee cups in 19 two years before the suit was filed. ors, says Edward J. Felson, a law representing a Cincinnati family i case against Burger King Corp., are v over by often grotesque burn photos

Congress is considering reform m sures that would discourage such su Until then, fast-food chains remain hot water.

By Cindy Webb in New Y

MEDICINE

CAUGHT IN THE ORGAN GRIND

Managed care is shaking up the transplant trade

Liver-transplant pioneer Dr. Thomas E. Starzl tells of flying to Nova Scotia for a liver—with the pilot nearly crash-landing the plane—and then racing back to Pittsburgh to sew the organ into a dying patient, saving a life. Those were the glory days of the 1980s, when the University of Pittsburgh was the liver-transplant capital of the world.

Things have changed since then: Pitt surgeons watched from afar as Mickey Mantle underwent his transplant at Baylor University Medical Center in Dallas in June. When it turned out the Hall of Famer's cancer had spread to his lungs (making him an unlikely candidate for a precious liver), Pitt sniped that the cancer's spread could have been caught with a $10 test—one developed at Pitt.

RESEARCH ROLLBACK? Such backbiting is growing common in the $4 billion transplant business. "The transplant programs don't trust each other," admits John J. Fung, chief of the Pittsburgh Transplantation Institute. Indeed, as the miracle of transplants becomes routine, market forces are roiling the industry. Hospitals are battling over a tight supply of hearts, kidneys, and livers. At the same time, insurers are negotiating cut rates for transplants, forcing hospitals to slash surgical costs and research.

This could mean a big squeeze on the industry. Already, nearly one-fifth of heart- and liver-transplant prospects die while waiting for organs. Despite an advertising push urging Americans to donate, the supply is barely growing. That means that as transplant demand rises, deaths on the waiting list will follow apace—unless substitute animal or mechanical organs can be developed. But such advances are less likely with insurers driving down costs. "The managed-care organizations are not terribly interested in funding research and development," says Roger W. Evans, head of health-services evaluation at the Mayo Clinic.

MANTLE: *His transplant at Baylor peeved Pitt*

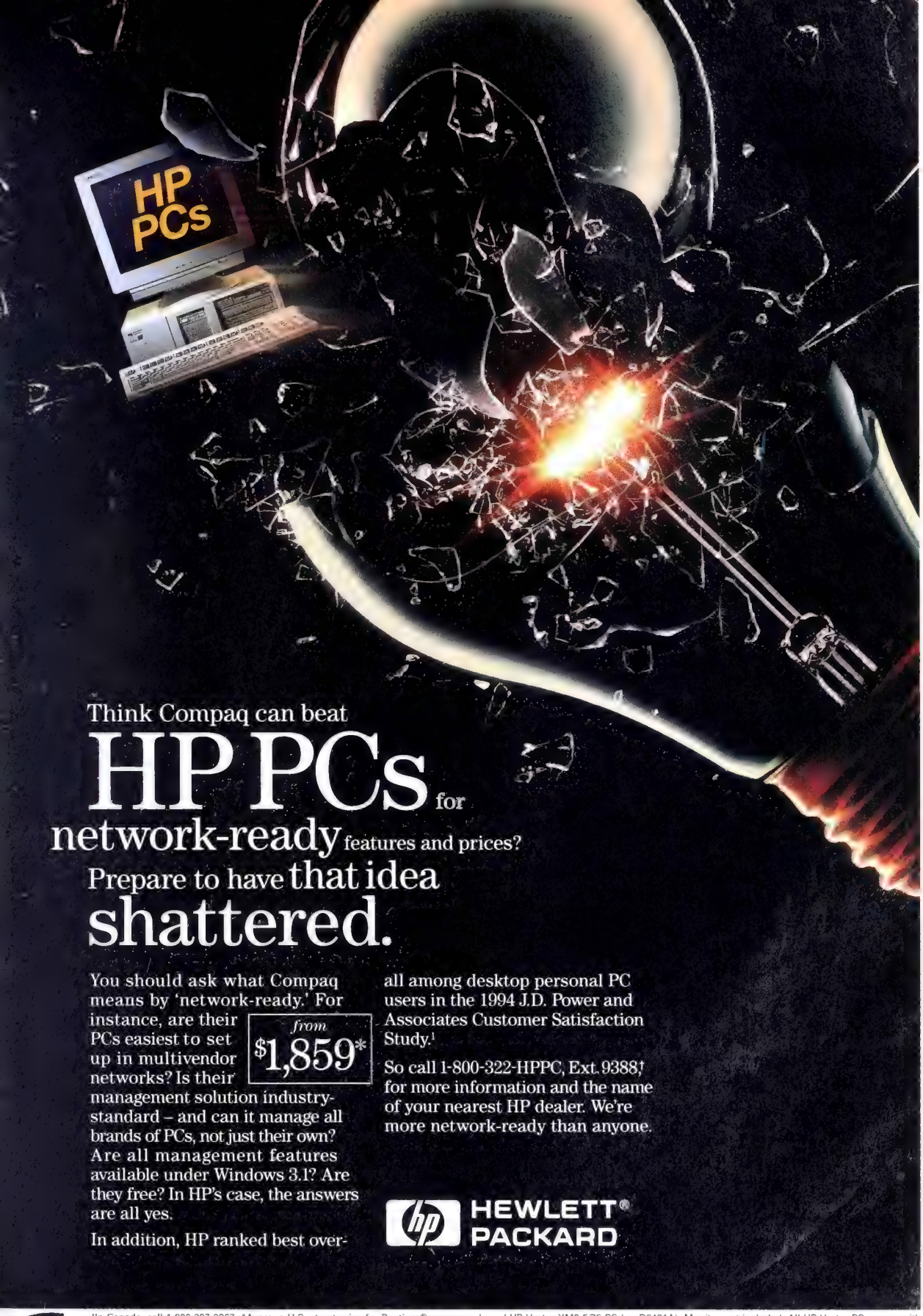
Imitating health maintenance organizations (HMOs), insurance companies are selling discounted transplant packages to companies. To get the business, hospitals are slashing prices: Some now offer liver transplants, for instance, at $120,000—vs. an average of $153,000. Insurers also are pushing most transplants to large, well-established hospitals. The upshot: a retrenched transplant business. The Mayo Clinic's Evans foresees a shakeout of providers, from 278 hospitals now to perhaps fewer than 100. "Contracts with insurance companies will be the lifeblood," says Pitt's Fu

Meanwhile, transplant centers c tinue to fight over organs. The natio allotment system divides the coun into 11 regions, with each one keep its organs to itself. This fosters a se that donors are saving their neighb lives, says Laurence Swasey, com nity-education liaison for New Yo Regional Transplant Program. But s geons at Pitt argue t the sickest patients are ing simply because the on the wrong side o state line.

PIG PUSH. Desperate s geons are now loosen the standards for don They're pulling org from people in their up from 55. And some the donors have histo of hepatitis and hyper sion. At the same time, searchers are continuing experiment with large mates. And at a rec transplant convention Bethesda, Md., several pig farmers culated, looking to move upmarket f wieners and kielbasa.

If scientists perfect mechanical org or cross-species transplants, the num of operations could skyrocket, perh to 100,000 a year. But then insur would ask even more hard questions. Starzl didn't think about such things his flight to Nova Scotia. Back th "managed care" was a new idea, and only health-care crisis was disease.

By Stephen Baker in Pittsbu



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EDITED BY THANE PETERSON

MICROSOFT SLIPS THROUGH THE NET

BILL GATES GOT WHAT HE wanted—for now. On Aug. 8, the Feds said they would not take action against Microsoft before the Aug. 24 launch of its Windows 95 operating system. Win95 now seems certain to include ready access to its new Microsoft Network (MSN) online service.

Unfettered for the moment, Microsoft is moving into high gear. Promotional spending for the Windows launch could approach $200 million. And Microsoft set fees for MSN at $4.95 a month for three hours of use, with a yearly subscription price as low as $39.95. Analysts called the pricing shrewd: The charges undercut rivals', but not by enough to alarm the Justice Dept. The Feds, however, say they may yet take action against Microsoft for bundling MSN with Win95. They expect to issue new subpoenas in mid-August seeking more information from rivals.

WILL THEY PUT WINDOWS IN IBMs?

ONE EXECUTIVE WITH A KEEN eye on Microsoft is James Firestone, named by IBM on Aug. 7 to head its new consumer division. The unit is being created to develop a strategic focus for the company's consumer products, including its Aptiva home PCs. One of the first items on Firestone's agenda: securing a supply of Win95 software for his fall PC lineup. As the launch date draws near, IBM remains the only major PC maker that has not inked a contract with Microsoft for the right to put the program in its machines. IBM says it is close to a deal.

THE NEW CEO AT BANKAMERICA

SIGNALING ITS COMMITMENT to expanding its international and corporate banking businesses, BankAmerica on Aug. 8 named David Coulter, 48, as its new chief executive. Coulter, vice-chairman of international and wholesale banking, will replace Richard Rosenberg when he steps down at age 65 on Jan. 1. Coulter was a surprise choice; Lewis Coleman, vice-chairman for finance, was widely considered to be Rosenberg's intended successor. But Coulter shone in his seamless management of BofA's merger with Continental Bank last year. Analysts expect Coulter to continue BankAmerica's expansion overseas, especially in Asia, though he promises no shift away from retail banking.

CLOSING BELL

GOLD GETS GOOFY

Are gold prices about to surge, or is the stock market getting wacky? Gold hasn't budged much lately: It's at $384, about where it was three months ago. By contrast, the Standard & Poor's Gold Stock Index is up 13%, a sign investors think prices are about to climb. When will we know if the market is right? Not until the fourth quarter, says PaineWebber analyst Marc Cohen. "If gold can get to and remain above $400, it will be bullish for the metal—and the stocks."

HEADLINER: DREW LEWIS

GETTING UNION PACIFIC BACK ON TRACK

Drew Lewis hit bottom just 10 months ago. After launching a nasty takeover fight for Santa Fe Pacific, the crusty, sometimes caustic chief of Union Pacific checked himself into an alcohol treatment clinic. Largely without him, UP lost the fight—and the No.1 position in railroading—to rival Burlington Northern.

Now sober, Lewis is back. On Aug. 3, he said he would pay $5.4 billion in cash, stock, and debt assumption for Southern Pacific Rail, a deal that would make UP No.1 again. Lewis personally cut the terms with Philip Anschutz, the hard-nosed Denver billionaire who owns 31% of SP. And the deal will be his legacy. After turning 65 he will cede the CEO's post to UP rail chief Dick Davidson at yearend 1996.

Lewis first gained notoriet as President Reagan's Transportation Secretary, when he helped bust the air-traffic controllers' union. Although tough, Lewi gets points from his aides for effective delegation. In deed, after cutting the SP deal, he slipped away to g fly-fishing, leaving his staf to wrap up the odds and ends.

By Joseph Webe

BAKERIES' DOUGH GOES INTO MERGERS

THE MESSAGE IN A SPATE OF recent deals: If you can't stand the heat in the low-margin bakery business, get out or get bigger. On Aug. 7, CPC International agreed to buy Entenmann's and other Kraft Foods bakery units for $865 million. Two weeks earlier, Anheuser-Busch said it would spin off Campbell Taggart to shareholders. And Interstate Bakeries completed its deal for Ralston-Purina's Continental Baking, merging Dolly Madison and Butternut brands with Hostess cakes and Wonder bread. United Biscuits also has its Keebler unit on the block.

FROM PAUL REVERE TO...PINOCCHIO?

WILL MICKEY MOUSE GUIDE tourists to the site of the Boston Tea Party? In early August, Disney officials t a tugboat tour of Bos Harbor with an eye tow building a new theme p on the city's historic wat front. No plans have yet b proposed by Disney, which one time planned to buil historic theme park n Washington. That project w defeated by preservationi A Boston park also may r a brouhaha: Residents h opposed a proposed n sports complex near the Disney is eyeing.

ET CETERA...

- France is now the bigg seller of arms to the Th World; the U. S. is No.2.
- Del Labs will pay $1.2 m lion to settle a sexual har ment case against its CEO
- The new president of S urn is Donald Hudler, a year GM veteran.
- The end of the fall new season? By 2000, GM plans launch new models month

"PERFECTOFFICE WINS."

PerfectOffice™ scored 7.0, Microsoft† Office scored 6.4, *InfoWorld*, April 1995

"★★★★½"

PC/Computing, November 1994

"BEST INTEGRATION."

PC World, January 1995

"...NOW THE BEST CHOICE..."

Analyst's Choice, *PC Week*, January 16, 1995

"PICKED BY 2 OUT OF 3."

Customer shootouts conducted by an independent reseller, November 1994 – June 1995

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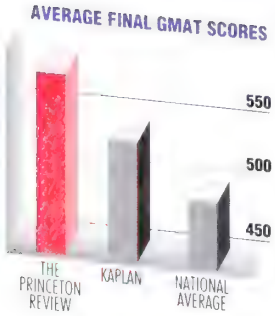

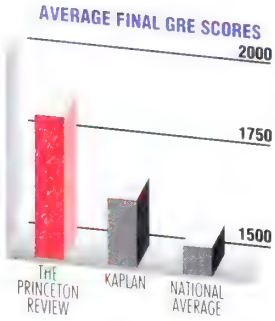

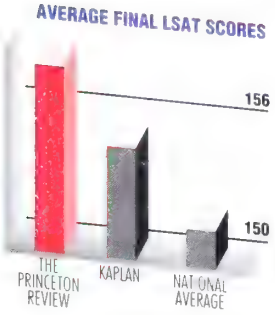

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TED BY OWEN ULLMANN

RO-LIFE COULD KILL HE GOP'S CHANCES IN '96

ter a 1992 Republican convention dominated by incendiary right-to-life rhetoric turned off voters in droves, political pros reckoned that the GOP would tread gingerly nd the abortion issue in '96. Wrong. Far from playing n their hard-line stance, conservative Republicans in ress are passing a raft of new abortion curbs. Cultural ervatives ranging from the Christian Coalition to former ation Secretary William J. Bennett couldn't be happier. moderate Republicans fear another backlash next fall.

an August blitz, House GOP leaders have tacked anti-tion language onto five spending bills. Among them: an tion ban at U.S. military facilities for women raped in federal prison. more moderate Senate voted on 5 to limit abortions covered by fed-employee health insurance. Shell-ked pro-choice activists concede restrictions could become law. "It's nprecedented assault—and we're los-says Kate Michelman, president of National Abortion & Reproductive ts Action League.

LIT? The reason: Social conserva-who backed economic planks in the ract With America say it's their "These [abortion] votes are needed to reinforce the " says GOP consultant Eddie Mahe Jr. The offensive is beginning. House Majority Leader Richard K. Armey (R-vows to push "as far as we can" to limit abortions.

t anti-abortion forces may pay a high price for victory. bitter debate is threatening to split the conservative omic coalition that brought the GOP to power. Polls sug-that many professional women and socially moderate in-ndents are turned off by religious conservatives' agenda. rvey by the Times Mirror Center for the People & the s shows that just 34% of women—compared with 49% of —approve of GOP policies. The Republicans' anti-abortion push, along with assaults on affirmative action and student loans, "will come back to haunt them," predicts independent Michigan pollster Edward V. Sarpolus.

PURITY IS KEY. That could damage the party's White House chances in '96. While President Clinton's ratings are stagnant, his pro-choice stance is one reason he's gaining on GOP rivals. Only two Republican candidates—Pennsylvania Senator Arlen Specter and California Governor Pete Wilson—favor abortion rights, but Wilson recently waffled and now backs restrictions. A Sarpolus poll in late July had Clinton's three-point lead over Senate Majority Leader Bob Dole (R-Kan.) growing to seven when voters are reminded of Dole's anti-abortion stance.

SHORTSIGHTED? *Victories have a price*

But pro-lifers—who dominate the GOP nominating process—care more about ideological purity than political gain. A huge majority of voters favor abortions for rape and incest victims, yet the House voted on Aug. 3 to let states cut off Medicaid funds in those cases. "The only thing worse than rape is abortion," thundered House Judiciary Committee Chairman Henry J. Hyde (R-Ill.).

Such rhetoric may backfire, fret some. "It's the Trojan horse that could beat the party," warns Specter. But moderates such as New Jersey Governor Christine Todd Whitman face an uphill battle to strip the '96 platform of a pledge to ban abortion. "I'm expecting the worst and hoping for the best," says Senator Olympia J. Snowe (R-Me.). "If our party is seen as intolerant, we're going to have serious problems."

But even if abortion curbs prove unpopular, GOP leaders see greater risks in vacillating. "If people catch you with your finger to the wind on an issue like abortion, you're dead meat," says Armey. The danger for Republicans is that the wind may be blowing the other way.

By Richard S. Dunham

CAPITAL WRAPUP

SINESS' BUDGET BLITZ

'he Business Roundtable is joining h Ross Perot's United We Stand erica and other groups in a cam-gn to lobby Congress and the ite House for a balanced-budget ord. The Coalition for Change, ded by AlliedSignal CEO Lawrence Bossidy, will enlist CEOs in an edu-ion effort to convince workers that dget balancing is a top priority. undtable Chairman John W. Snow, of CSX Corp., says the group is lling a fall advertising blitz pushing a bipartisan deficit-reduction solution as an alternative to the budget war brewing between President Clinton and Congress.

CLINTON MAKES AMENDS

▶ President Clinton feels former freshman Representative Karen Shepherd's pain. The Utah Democrat blames Clinton's unpopularity for her defeat in 1994. So he plans to name her to the Federal Election Commission, a six-year, $115,700-a-year job. The ex-schoolteacher led a House bipartisan group of freshmen campaign reformers.

TYSON: TRADE HONCHO?

▶ Since Robert E. Rubin became Treasury Secretary, the National Economic Council he headed has languished. To inject some pep into the somnolent NEC, Director Laura D'Andrea Tyson is seeking to assert control over U.S.-Japan trade policy. Her goal: More pressure to open Japan's markets. But Clinton is leery of more fights with Tokyo, and colleagues say Tyson lacks Rubin's clout. "Nothing will come of this," says one Administration insider.

GERMANY

THE SHOCKS FOR DAIMLER'S NEW DRIVER

Diversification failed, and only drastic action by CEO Schrempp can repair the damage

It could have been the smoothest of handovers. When Jürgen E. Schrempp became chief executive of Germany's Daimler Benz on May 24, he expected to inherit a $74 billion industrial empire restored to financial health. His predecessor and mentor, Edzard Reuter, boasted of a return to profits of $750 million in 1994, after losses of $1.3 billion in 1993. Reuter even promised another boost this year.

But less than three months later, the empire is in disarray. Hit by the soaring German mark, management disputes, and losses from Reuter's own diversification strategy, Daimler is facing another dangerous slide in profits. Brokers have stamped "sell" recommendations on the stock. In a fight to restore the company's credibility, Schrempp, 50, has reversed Reuter's forecast and warned of "severe losses" in 1995.

Schrempp must take drastic action, as early as September. A tough-minded executive who once was a Mercedes-Benz auto apprentice, he will have to cut tens of thousands of jobs and stem bleeding in units such as Daimler Benz Aerospace (DASA). He is likely to sell large chunks of Daimler Benz Industrie, which loses money on everything from trains to electronics.

In essence, then, Schrempp must preside over the reversal of his former boss's 10-year effort to diversify Daimler into a maker of jets, helicopters, and trains—even though Reuter is now key member of Daimler's supervisory board. Says Michael Schickling, au analyst at Frankfurt private ba Schröder Münchmeyer Hengst & C "Schrempp's most important job n is to develop a clear strategy a convince financial markets [that will work]." Daimle efforts

WHAT SCHREMPP MUST DO

- Make decisive break with failed diversification strategy
- Focus on core automotive and truck businesses, which provide most of the group's profits
- Close the money-losing Daimler Benz Industrie unit with sell-offs and transfers of profitable operations to other divisions
- Slim down DASA Daimler Benz Aerospace, reducing its workforce of 40,000 by up to 50%, and step up sourcing of parts from dollar and other weak-currency areas
- Speed up globalization of manufacturing by locating big-ticket plant investments outside Germany

DATA: BUSINESS WEEK

ent itself go to the heart of Germa-
nc.'s problems. The soaring mark
sky-high labor costs have severely
ged the competitiveness of German
rts. At DASA, for example, aerospace
ucts are priced in dollars, but many
are still in marks. With the mark at
nt levels of about 1.40 to the dollar,
nal Daimler studies figure DASA has
0 workers too many. Schrempp may
up to half the 40,000 workforce.

e lessons go deeper. Daimler's woes
up flaws in Germany's system of
orate governance. Its supervisory
d, chaired by Hilmar Kopper, CEO
eutsche Bank, which owns 25% of
ler, failed to rein in Reuter, despite
eps. "We think Reuter made a lot of
kes and is to blame [for Daimler's
ems]," says one Frankfurt banker.

ITABLE CORE. So Schrempp is un-
enormous pressure. Big investors
him to lay out a strategy on Sept.
hen the company announces half-
results. Analysts expect a massive
ucturing at DASA and Daimler Benz
strie that could force a $2 billion
-off in 1995—and allow a clean slate
96. "The more he does to restruc-
this year, the better the results will
next year," says Jürgen Pieper, auto
st at Deutsche Morgan Grenfell in
kfurt.

the meantime, Schrempp will rely
aimler's profitable core business—
uxury Mercedes-Benz automotive
truck division. It earned net profits
.3 billion last year and should do as
this year and next. If so, Daimler
turn a net profit of about $1.3 bil-
n 1996, after losing from $370 mil-
o $1 billion this year, analysts say.
ut Mercedes won't just provide the
needed to fix Daimler's balance
: It is becoming the model for the
e company. To make Daimler com-
ive globally, Schrempp plans to fol-
the trail blazed by Mercedes-Benz
Helmut Werner since he took over
onths ago. Werner has pressed his
ners to watch costs and build cars
mpetitive market-driven prices. And
lans to invest in new plants in the
, France, and China.

ch efforts will now sweep across
company. DASA, for example, is aim-
ing to slash costs by $1.4 billion
under a program code-
named "Dolores"—
short for "RESCuing
[the company from
the] LOW DOLLAR." It
could include a pay
freeze, longer work-
week, and shifting of
production and parts
purchasing into weak-
currency areas.

Schrempp also

COST ANGST: *Jobs in aerospace are at risk*

SCHREMPP'S TROUBLED INHERITANCE AT DAIMLER

The market strongly disapproved of former Daimler-Benz CEO Edzard Reuter's diversification strategy

DATA SCHRODER MUNCHMEYER HENGST

means to stamp Daimler with an enterprise culture. Even before the avalanche of bad news, he chopped 40% of Daimler's 500 executive jobs at Stuttgart headquarters and told those remaining not to meddle in operating units unless they produce "tangible benefits." Daimler's 1,700-strong central research and development staff has been told to lift productivity by 30% in three years or face cuts.

SPANISH MISSTEPS? But even massive restructuring is not enough. Schrempp must also reverse damage to Daimler's image from recent public management scrapes. In the most startling incident, a German business monthly, *Manager Magazin*, published extracts from a 76-page diatribe against Reuter's "catastrophic" diversification strategy written by former Daimler Finance Director Gerhard Liener. On July 25, Schrempp fired Liener from a lucrative Daimler consultancy contract, saying he had damaged the company.

A few days earlier, Schrempp himself had been involved in an embarrassing episode. He and two colleagues were picked up by Italian police near the Spanish Steps in Rome at 2 a.m. for an identity check. They were, according to a police report, in an "exuberant mood, carrying a bottle of wine." Germany's tabloids reported erroneously that Schrempp had been arrested.

Answering the media barrage, Schrempp admits he was "in a good mood" in Rome. He also is publicly defending Reuter's strategy. Schrempp points out that both he and Liener attended board meetings where Reuter's diversifications were unanimously endorsed. Nonetheless, while gearing up for the CEO job, Schrempp had begun to distance himself from earlier policies. He talks of strengthening Daimler as an "integrated transportation company," rather than vaguely calling it an "integrated high-tech concern," as Reuter did.

Financial analysts hope Schrempp will soon move beyond such subtle distinctions and bring relief to shareholders. Under Reuter, Daimler's market value plunged from $30 billion to $25 billion (chart). Shareholders did even worse in relative terms. Würzburg economics professor Ekkehard Wenger figures 100 marks invested in Daimler when Reuter arrived is worth barely 71 marks. An investment in the DAX index of 30 Frankfurt Bourse blue chips grew to 147 marks over the eight years, while Daimler's German rival BMW surpassed 151 marks in value.

The erosion continues. In the 12 months through mid-July, Daimler shares slid 5.7% in price and fell a huge 12.5% relative to the DAX. While Schrempp insists "the operating business is going very well," he knows he must hunker down for a long, difficult haul if he is to restore the market confidence in Daimler.

In the end, remaking Daimler is likely to involve a progressive hollowing-out of Germany's manufacturing base. That could lead to a major fight with militant German labor unions. If Schrempp is up to the task, it may be just the shock that Germany Inc. needs. Daimler shareholders won't be the only ones watching.

By John Templeman in Bonn

SAUDI ARABIA

AN INTRUDER IN THE KINGDOM

Saudi officials try to police taboo subjects on the Internet

When a young Saudi named Ramzi and his friends decided to dip their toes in the Internet last year, they vowed to avoid three risky topics in Saudi Arabia—sex, religion, and politics. But in a land where women are veiled from head to toe and unmarried couples may be arrested by baton-wielding religious police, curiosity prevailed. "Every single one of us has downloaded adult pictures on the Internet, and religion is one of the hottest subjects," Ramzi says. "People discuss religion in an open way that was unthinkable before."

The Internet is sparking an intense debate in Saudi Arabia and other Arab countries. The Saudis have always wanted the latest technological innovations, but the freewheeling communications possible on the Net are a different story. The authorities worry that they will lose their tight grip on political dialogue and public mores. But business executives and others argue that they need access to the latest information to build a competitive society. "We must not bury our heads in the sand," wrote leading Saudi columnist Khaled A. Al-Maeena in the daily *Asharq Al Awsat* recently. "We should be travelers on the Information Superhighway and not standing by the wayside watching the world go by."

VIRTUAL GRAFFITI. Thousands of Saudi hackers have already figured out how to dial into the Internet through neighboring countries or by dialing the U.S. directly. They are debating every taboo subject, from atheism to pornography, on electronic billboards beyond the reach of the authorities. Saudi fundamentalists slug it out with Western atheists in cyberspace. The Net doesn't take Arabic script, but those who aren't fluent in English transliterate Arabic words using the Western alphabet.

Almost anything can turn up—from hot news about the Saudis' failing to meet municipal payrolls to debates about whether Kuwaiti women should be permitted to vote. "Because Gulf societies are so closed, the idea of a free exchange of ideas and information is very appealing to their nationals," says

a media analyst. "The political graffiti you don't find on the walls you see all over the Internet."

Local Internet access is already available in neighboring Kuwait, where about 400 subscribers pay $200 a month for government-owned GulfNet. The United Arab Emirates has just come on the Internet, and Bahrain is not far behind.

The Saudis realize that they can't completely lock out the Internet without removing all computers and phone lines. So they have decided to grant some a cess to selected users, such as univ sities and hospitals. Businesses can ap to the Posts, Telegraphs & Telecommu cations Ministry to go online through service called Alwaseet that links with CompuServe Inc. in the U.S. a other carriers. Alwaseet has 6,000 su scribers. But local Net service is r yet available. And companies that provide Net access are told to keep low profile and not advertise.

Saudi Business Machines, the l dealer owned by the wealthy Juff merchant family, has been negotiati for three years with the PTT to set u local computer node, which would much less expensive to use, but h been denied permission. "The entire s tem is in place," says Hassan Barr assistant general manager for Sau Business Machines. "We're just wa ing for a green light." Without such system, hooking up to the Net slow and costly, and Saudi pho lines are relatively slow. "It's li the rest of the world has lane highways, and we're s driving on a road with t lanes," says Barraj.

But a new multibillion-d lar phone upgrade fr AT&T will allow for fas and cheaper data commu cations by the end of n year. Such a scenario mak the authorities nervo Saudi officials have vow to crack down on any h ky-panky when the univ sities get on the Net n year. "Here in the Kingdo with our strict rules and r ulations, the Internet will used only for constructive jectives," Muhammad Bent a dean at King Fahd Univers for Petroleum & Minerals, tol local paper.

But university students are gro ing increasingly fascinated with the fr dom that comes with high-tech commu cations, and some have already gotte glimpse of life outside the Kingdom. lot of my friends and I communic with students all over the world to how they live," says a 19-year-old nam Mishary. "We've made friends with b male and female students in the Stat and we correspond daily." Others their computers to download *Playb* centerfolds for $55. All this is an abo ination to the religious authorities, there isn't much they can do.

By Faiza S. Am in Jiddah, Saudi Ara

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COMMENTARY

By Bill Javetski

THE DOLLAR AND THE D-MARK: A REAL LOVE MATCH

Philippe Séguin smells a rat. Séguin, head of the French Parliament and adviser to French President Jacques Chirac, says recent protests against France's decision to resume nuclear testing are part of an Anglo-Saxon conspiracy. The U. S. wants France's deterrent crippled, Séguin believes, because that would enfeeble French leadership and undermine European unity. Séguin and his Gaullist peers also suspected a plot three years ago when currency turmoil cracked Europe's system of managed exchange rates.

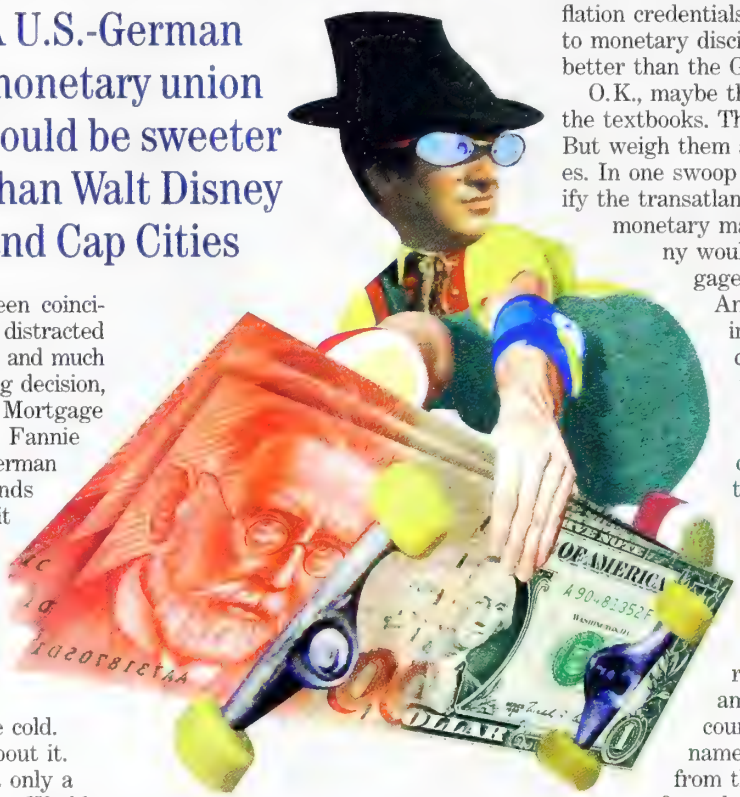
No doubt Séguin is on to something, and I've discovered a likely mole in this alleged undercover caper: Her name is Fannie Mae. It couldn't have been coincidence that while France was distracted by European Union members and much of Asia denouncing the testing decision, the U. S. Federal National Mortgage Assn. made a clever move. Fannie Mae launched a one-billion German mark offering of global bonds worth $720 million, making it the first U. S. agency to tap the markets with nondollar-denominated debt. Now, it's just a matter of time before the U. S. and Germany forge a monetary union that leaves France and the rest of Europe out in the cold.

PEOPLE WILL TALK. Think about it. Fannie Mae's offering wasn't only a milestone in the financial New World Order. It could be a better marriage than Walt Disney Co. and Capital Cities/ABC Inc. Investors, offered U. S. debt denominated in a dependable currency—like the dollar used to be—snapped up the bonds. The lead manager closed the books in the first hour of trading. How's that for stealth?

You know what happens next, right? Other U. S. agencies will make their own offerings in marks, and they'll all be big successes. Soon people will start talking about how convenient it would be to have just one currency for the U. S. and Germany—and forget about all those fluctuating exchange rates.

After all, the German government has been yearning to create a unified currency with somebody to show how neighborly Germany has become. But the Germans can't find a European partner capable of meeting their monetary standards. Most of Europe is having a devil of a time staying off the slippery slope of fiscal profligacy.

A U.S.-German monetary union could be sweeter than Walt Disney and Cap Cities



Which means European monetary union, if it happens, is likely to do just what the Germans don't want: wreck the currency that the Bundesbank has worked so hard to build faith in.

The U. S. could solve all these problems for Germany. It's a mammoth power where deficit-cutting is all the rage. Can any country in Europe outside Germany say that? It would be a friendly fit, too: Three-quarters of Germans surveyed describe themselves as "pro-American." And America's growing links to Latin America provide growth prospects. Argentina, for instance, may be closer to meeting the European criteria for a single currency than Italy.

The timing couldn't be better. Newt Gingrich (R-Ga.), Speaker of the House of Representatives, is looking to subcontract out functions of the U. S. government. So, to keep the new German-American currency strong, why not let the Bundesbank run the Federal Reserve? Sure, the Fed works hard to uphold its anti-inflation credentials. But when it comes to monetary discipline, nobody does it better than the German Bundesbank.

O.K., maybe this proposal isn't in the textbooks. There could be hitches. But weigh them against the advantages. In one swoop the U. S. could solidify the transatlantic relationship. A monetary marriage with Germany would keep the U. S. engaged in Europe forever. And just think of the imports Americans could buy if armed with a strong currency like the mark.

Not only that, but did you ever notice the words "dollar" and "Deutschemark" begin with the same letter? Finding a name for the new currency would be a lot easier than reaching agreement among 15 European countries. After all, the name "dollar" is derived from the German in the first place—the Austrian "thaler" of the 16th century.

True, Germany's neighbors might feel put out that they can no longer hitch a ride on the credibility of the mark. That includes France, which has been desperate to strengthen the franc. But there will be some consolation. When the U. S. President and the German Chancellor announce their monetary marriage, French officials will be able to say that they suspected the nuptials were coming all along.

Javetski covers European economics from the Paris bureau.

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Executive Summary

EDITED BY STANLEY REED

INDIA'S POLS MAY BE TURNING AGAINST FOREIGN BUSINESS

The recent cancellation of a $2.9 billion Indian power project was a huge blow to Enron Corp.'s global ambitions. It also could mark the beginning of a big shift in Indian politics. Many Indians were delighted to see a big U.S. corporation cut down to size. And by giving the ax to the project, the right-wing Bharatiya Janata Party (BJP) has put itself in a position to wrest power from the ruling Congress Party, which has led India for most of the 48 years since independence.

The Maharashtra state government—a coalition of the BJP and the local Shiv Sena party—justified the move by saying that Enron was going to make too much money on the deal. There were also charges of kickbacks, which Enron emphatically denies. Long in search of a way to counter the Congress Party, the BJP seems finally to have honed in on a nationalistic message: Make reforms, yes, but without selling out. Or, as BJP President L. K. Advani recently said: The party "has no objection to foreign investment" as long as it doesn't compromise "the nation's economic sovereignty."

HOPELESSLY TAINTED? This theme plays nicely on the visceral distrust of foreign companies that Indian voters have felt since the colonial era. It also satisfies Indian businesses by assuring them the reforms will continue—and that they may be protected. The BJP now can present itself as the best choice for reforming the economy. Congress is simply too corrupt to do the job, too cozy with business interests, BJP politicians say. That tallies with many voters' view of Congress as having held power for so long that it is hopelessly tainted. Even the macabre front-page story of a murdered woman found in a tandoor oven in a New Delhi restaurant last month turned into a tale of Congress' criminal excesses. Her husband, the accused in the murder, was a Congress Party youth leader.

ADVANI: *Nationalist message*

Foreign investors are finding out that Congress isn't as all-powerful as they thought. Top Congress officials have conspicuously not come to Enron's defense, though they champione the project in the first place. Prime Minister P. V. Narasimh Rao did little else than affirm Maharashtra state's legal righ to scrap the project and offer mild hope that "there will b some way out."

In the months leading up to the election—which will b held sometime between October and March—other foreig companies might become unwilling participants in India electioneering. Fast-food chain KFC, which just opened it first restaurant in Bangalore in June, has a ready had to increase security followin threats from local political groups who sa India doesn't need America's greasy fast foo Local protests are exactly the spark tha started the Enron debacle.

But, as analysts point out, the BJP has to b careful not to go overboard with its econom nationalism. "The Enron issue gives an adva tage to the BJP, provided they don't becom too dogmatic," says Anand Kumar, a politic scientist at New Delhi's Nehru University.

If the BJP should come to power, it wi likely bring with it a muddled policy of ec nomic reform. The party says it wants foreig investment in "critical" areas such as road telecommunications, and, yes, power, but firmly opposed to the presence of consum companies, such as Coca-Cola Co. and PepsiC Inc., which have been in India for several years. Jay Dubash the BJP's economic adviser, says that if the party makes it t national office, it will review all foreign investments alread in India. Says Dubashi: "If it turns out that we have to as them to go, then we'll ask them to go."

Of course, the BJP isn't going to throw all foreign companie out of India or block all new deals. Voters don't want tha But multinationals are going to have to do what Enro didn't—obtain the blessing of the BJP and other strong loc groups. Otherwise they may suffer the same fate.

By Sharon Moshavi in New Del

GLOBAL WRAPUP

CHINA LIKES MORGAN STANLEY

▶ Nine months after announcing a tentative deal, Morgan Stanley & Co. has finally won permission from Beijing to start China's first international investment bank. Coming at a time when U.S.-China relations are strained over Taiwan and imprisoned activist Harry Wu, the decision to grant a license to China International Capital Corp. shows that well-connected American companies can still get things done. Morgan Stanley, which will take a 35% stake, has some powerful friends in Beijing. Its main partner is the state-run People's Construction Bank of China. Capitalized at $100 million, CICC will focus on infrastructure projects.

EGYPT-ISRAEL: MORE TRADE

▶ Business between Egypt and Israel is finally picking up after years of lukewarm economic relations following the 1979 peace treaty between the two nations. Bilateral nonoil trade more than doubled to $43.9 million in 1994 and soared to $35.4 million for the first six months of 1995. A huge Egyptian-Israeli investment project, a $1.2 billion oil refinery to be built at Alexandria, was recently launched. Its main owners are Egyptian businessman Hussein Salem and Merhav Ltd., the vehicle of Israeli entrepreneur Yossi Meiman. Israel imports roughly $400 million worth of Egyptian oil per year.

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Built-in 10Base-T and AAUI Ethernet

The Apple Color LaserWriter 12/600 PS.

True 600 dpi

Apple Color PhotoGrade

ColorSync 2.0

12 ppm black 3 ppm color

Windows 3.1 compatible

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The Power Macintosh 8500.

120 MHz PowerPC 601 RISC processor

Processor upgradable via daughterboard

3 PCI slots

3 expansion bays

8 DRAM sockets

16MB to 512MB of DRAM

1GB or 2GB Fast SCSI hard disk

Built-in video in video and capabilities up to 30 frames per second

Built-in 10Base-T and AAUI Ethernet

The Power Macintosh 7200 and 7500.

3 PCI slots

Built-in 10Base-T and AAUI Ethernet

7500

100 MHz PowerPC 601 RISC processor

Processor upgradable via daughterboard

3 expansion bays

8 DRAM sockets

16MB to 512MB of DRAM

Built-in video in

7200

75 or 90 MHz PowerPC 601 RISC processor

4 DRAM sockets

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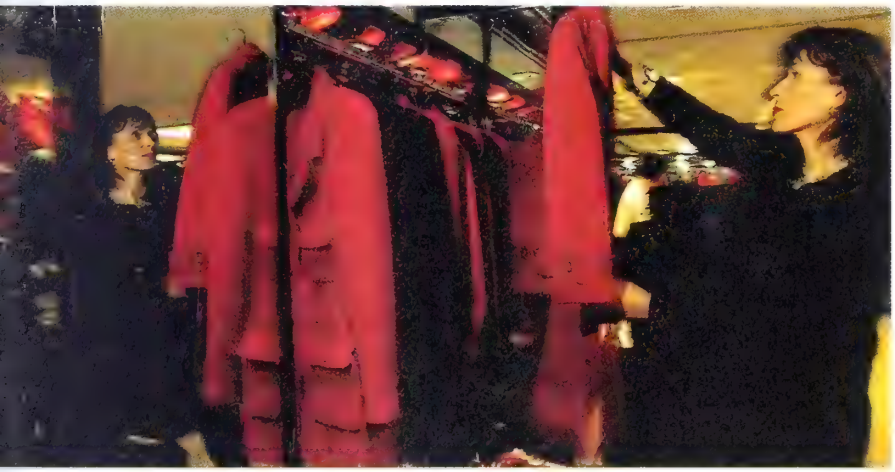
TAILING

OLLAR DAYS FOR HE CARTIER CROWD

e weak dollar has jet-setters flocking to the U.S. for bargains

alespeople in Louis Vuitton's plush Manhattan boutique didn't have to knock themselves out when Kana-Kitaguchi walked through the door. 19-year-old student from Osaka e armed with a shopping list: a 00 black purse ordered up by her her and a $100 bright-yellow leath-ey chain for her sister. "My mother ed me to buy them in New York use it's cheaper," says Kitaguchi, in a Calvin Klein T-shirt, combat s, and a fashionable nylon back-



. "In Japan, it is very expensive." o kidding. If her mother had bought e items at home, she would have an extra $490. While other retail ors languish, sales of luxury goods—mès scarves, Chanel bags, Ferragamo s, and similar trappings of the jet -are booming. It's a global phenome- thanks to a general pickup in travel, ore stable world economy, and a dash against early '90s frugality. Sal-ore Ferragamo's worldwide sales ed 47%, to $327 million, in 1994, and is Vuitton Malletier's sales jumped , to $1.3 billion. The demand for dmade leather goods is so strong that ragamo and Chanel limit the num- of shoes and bags their customers buy. And while the hoi polloi must r sales, deals, and discounts, luxury ls cost more than ever. That $245 mès scarf was $225 a year ago. Vuit-hiked prices 6% in the U.S. in May.

The boom is particularly striking in the U.S., where a weak dollar makes ultrahigh-priced items, from $5,000 exot-ic-skin Judith Leiber daytime handbags to $450 Hermès umbrellas, look like bar-gains to shoppers from Brazil, Germany, and Japan. "The dollar differential is definitely contributing to sales," says Michael A. Burke, president of Louis Vuitton North America Inc. "It's prob-ably about half the equation."

The luxury-buying binge is especially strong on both coasts and in Hawaii.

SUITING UP: *Chanel has new stores in Colorado, Florida, and Hawaii*

Honolulu, just seven jet hours from To-kyo and a favorite destination for vaca-tioning Japanese, has become a luxury retailer's paradise. The U.S. Travel and Tourism Administration estimates that 4.4 million Japanese will visit the U.S. this year and that nearly half of them will go to Hawaii. Isaac Lagnado, princi-pal at New York consultant Tactical Re-tail Solutions Inc., says Japanese visitors will spend about $2 billion on merchan-dise in the U.S. At New York jeweler Harry Winston, Japanese tourists snap up its "less expensive" $7,400 watches to pass out to friends and relatives back home. And Cartier does a brisk business in $1,050 tricolor gold rings.

Americans are also scooping up more luxury goods these days. In the reces-sion-ridden early 1990s, even wealthy consumers rejected the ostentation of the previous decade. The rich still aren't wearing flashy clothes, says retail con-sultant Alan G. Millstein, but now, they're going for pricey accessories. In the past 18 months, it has become chic again to carry a $1,400 Chanel bag or drape a $245 Hermès silk scarf around your neck. Carolyn Lawrence, an inter-ior designer who recently visited the Manhattan Hermès store, says she cut back on her spending for a few years but began visiting her favorite luxury boutiques again early last year. "You get tired of being frugal and concerned," says Lawrence, 52.

LIMITED SUPPLY. To satisfy the surg-ing demand, many luxury purveyors are expanding their U.S. operations. Louis Vuitton plans to triple the size of its New York store within two years. Chanel has opened new stores in Bal Harbour, Fla., Aspen, Colo., and Lahai-na, Hawaii, in the past year. For young-er globe-trotters, a $470 nylon and leather backpack from Prada, the Ital-ian apparel and accessories designer, has become part of the uniform. In re-sponse, Saks Fifth Avenue recently opened 11 Prada boutiques across the country.

Some luxury-goods makers are also ramping up production to meet the add-ed demand. After Vuitton logged its highest-ever level of back orders at the end of last year, it hired 650 additional factory workers. But increasing the number of handmade goodies on the shelf without compromising quality is tough. That's why rationing has come to Rodeo Drive. There's a six-month wait for some Hermès purses. Chanel limits its boutique customers to two handbags each, while Ferragamo limits custom-ers to fewer than 10 items. Makes it tough for a status shopper to buy in bulk.

By Lori Bongiorno in New York

WHAT PRICE LUXURY?

ITEM	PRICE* U.S.	PRICE* JAPAN
HERMES SILK SCARF	$245	$398
PRADA NYLON BACKPACK	470	750
LOUIS VUITTON DRAWSTRING BAG	795	1,060

*At current exchange rates
DATA: BUSINESS WEEK

THE OPERATOR

An inside look at Ron Perelman's $5 billion empire

East 62nd Street in Manhattan between Madison and Park Avenues is a quiet residential enclave of posh townhouses. But one of those townhouses—you'd never know it, because there's no name on the building—is the headquarters of MacAndrews & Forbes Holdings Inc., the empire owned by Ronald O. Perelman, one of the savviest dealmakers of his time.

His first-floor office is mogul-size, with a display of huge modern paintings, a Warhol and a Twombley. Crowding every surface are lucite mementoes commemorating various deals. On the leather couch are needlepoint pillows that say "No Guts, No Glory," "Happiness Is Positive Cash Flow," and "Love Me, Love My Cigar."

Perelman, 52, looks as though he is basking in all three: glory, positive cash flow, and his ever-present cigar. Tanned, intense, and impatient, leg draped over the side of a chair, puffing away on an H. Upmann, Perelman talked in a rare interview about his sprawling empire. His vocation and avocation is collecting companies, and he is driven by the desire to acquire and own them. The array is remarkably diverse: Revlon (cosmetics), Coleman (camping equipment), Marvel Entertainment Group (comic books and trading cards), First Nationwide Bank (banking), New World Communications Group (broadcasting), and, of course, Consolidated Cigar. "I'd love to buy another cigar company," says Perelman with a hint of his native Philadelphia accent. (He smokes five cigars a day, keeping one in hand from 7:30 in the morning to 9 at night.) "I love all the businesses we are in."

While critics may sometimes attack his tactics, Perelman has built an extraordinary empire virtually from scratc He started in 1978 with only a $1.9 million bank loan. He us it to buy a New Jersey jewelry store chain, which he then l uidated for $15 million. Over the next 17 years, he bought companies, keeping some and selling others for huge profi He parlayed his gains into a conglomerate of name-bra companies with 60,000 employees. BUSINESS WEEK values stake at $5 billion, making him one of the dozen or so wealt est people in the U. S.

Perelman's 100% ownership of MacAndrews & Forbes, wh he bought in 1978, is what sets him apart from the general r of dealmakers. Players such as Henry B. Kravis buy compan with their clients' money and collect fees, while Perelm buys companies with his own money. "Henry is doing it for t fees. Ron is doing it to own it," says Steven I. Chazen, chief nancial officer of Occidental Petroleum Corp. and a form Perelman banker at Merrill Lynch & Co.

PILES OF READY CASH. Perelman didn't build his emp just by being a shrewd wheeler-dealer. His companies are large part flourishing because Perelman spends a lot of ti operating them as well. He took companies such as Rev and Coleman, which had great brand names but were go nowhere fast, and turned them around. The stock market v ues of Coleman, Marvel, and New World have soared since took them public in the early 1990s. "Our business has alwa been the creation of wealth. That's what we do for a livin says Howard Gittis, Perelman's chief lieutenant.

Perelman is still very much on the hunt. He is pursuin strategy of rapid growth, through internal expansion a

Perelman's Empire: What It's Worth

Dollar figures in millions	REVLON	FIRST NATIONWIDE	MARVEL	COLEMAN	NEW WORLD	MAFCO CONSOLIDATED	LAB CORP. OF AMERICA
PERELMAN'S STAKE	100%	100%	80.2%	82.9%	42%	86%	11%
MARKET VALUE OF STAKE	$2,700	$1,800	$1,160	$821	$734	$465	$192
MINUS HOLDING COMPANY DEBT**	$1,900†	$500††	$692	$374	$246	NHC	NHC
NET WORTH	**$800**	**$1,300**	**$468**	**$447**	**$488**	**$465**	**$192**

All figures as of July 28, 1995 NHC=No holding company. * Includes $500 million in cash at MacAndrews & Forbes
** Excludes operating company debt † Includes $1.1 billion in operating company debt †† Includes $300 million in preferred stock

constant small acquisitions. Now Perelman is gearing up for a bigger purchase. There is $500 million in free cash at MacAndrews & Forbes, with another $200 million at Mafco Consolidated ready to spend, which could back a multibillion-dollar bid, says Gittis.

Perelman does face hurdles. One is the reputation he acquired in the 1980s as a raider, a greenmailer, and a charter member of Michael P. Milken's junk-bond network. Revlon, which he snagged in 1986 with Milken's backing, was one of the decade's most bitter hostile takeovers. Since then, he has become known as a highly successful operator of companies, but blue-chip America still views him as "the plague," says one banker. And the aggressive billionaire has left a trail of enemies and lawsuits from shareholders, employees, and ex-wives. Says Perelman: "We don't like to be misused or taken advantage of. But I think the image of us being that hard is terribly exaggerated."

> "Henry Kravis is doing it for the fees. Ron Perelman is doing it to own it"

And Perelman's skills as an operator of companies are far from infallible. It took him years to finally create a successful strategy for Revlon, his biggest conquest and the centerpiece of his empire. He has revitalized the company, but the real test will be whether he can pull off an initial public offering. "If the markets are strong, I'd love to take it public," says Perelman. He is expected to try an IPO early next year. Perelman was already embarrassed in 1992, when a Revlon IPO flopped because of poor timing and overoptimistic projections.

Despite a turnaround, Revlon won't be an easy sell. Just determining what it's worth is controversial. Sources close to Revlon put it at $4.7 billion, while some analysts believe the figure is half that—barely enough to cover its debt.

"POOR MAN'S DISNEY." And it's not only the value of Revlon that's at issue. Gittis maintains that the gross value of what MacAndrews & Forbes owns is about $10.8 billion. MacAndrews & Forbes bankers say this includes $4.7 billion for Revlon and $2.5 billion for First Nationwide. The net worth of all Perelman's companies, according to Gittis, after subtracting all holding-company debt of $1.8 billion, therefore, comes to $9 billion. BUSINESS WEEK estimates that the figure is more like $5 billion. For one thing, MacAndrews & Forbes may be overestimating the value of Revlon by $2 billion (box, page 58). The

Perelman's managers value his holdings at $9 billion. As the table shows, BUSINESS WEEK estimates his holdings at about $5 billion.

TOY BIZ	MERIDIAN	POWER CONTROL TECH	TOTAL
37%	65%	31%	
$163	$55	$53	$8.143
NHC	NHC	NHC	$3,712
$163	**$55**	**$53**	**$4,931***

DATA: STANDARD & POOR'S, MOODY'S, BLOOMBERG FINANCIAL MARKETS, MACANDREWS & FORBES, BW

value of First Nationwide may also be too high. Todd A. Pitsinger, an analyst at Friedman, Billings, Ramsey & Co., estimates that the thrift is worth $1.8 billion. Further, MacAndrews & Forbes doesn't subtract $1 billion in Revlon operating-company debt and $300 million in First Nationwide preferred stock.

Perelman's more recent forays into creative businesses, such as television production and publishing, have proven more difficult than those in the simpler industries, such as camping equipment, that have been his mainstay. One example: Marvel's recent loss of comic-book market share. Instead of improving the quality of the comics, say retailers, Marvel has fired talented authors and is relying on excessive licensing of Spiderman and other characters. "He's strip-mining the company," says Jim Shooter, former editor-in-chief of Marvel and now a competitor.

Perelman, further, has yet to bag a top-tier media company. New World is still a second-tier player, with limited TV production and uncertain cash flow from its TV stations. As for Marvel, Perelman must content himself with "a poor man's Disney," as one analyst dubbed Marvel. Asked about running creative firms, Perelman admits, "It's harder."

Perelman loves the financial high wire, taking out the equivalent of home-equity loans on most of his companies to buy new companies. He has considerable debt outstanding at two levels: Bonds issued by the holding companies that own the operating companies and bonds issued by the operating companies themselves. Changing economic conditions, such as recessions or high interest rates, could jeopardize Perelman's ability to grow. Perelman says that his debt level is conservative: "We could sell any one of six assets and completely eliminate our holding-company debt overnight."

Right now, Perelman seems to be everywhere, creating buzz in Hollywood, on Wall Street, in Las Vegas, and in Atlantic City. Perelman is building a television company from the ground up. In the past year, he has reeled in deals with Fox Broadcasting Co. and NBC Inc., and hired Brandon Tartikoff, one of the biggest names in television. "They're terrific deal makers," says Barry Diller, the former Fox and QVC Inc. chairman. Perelman is attracting a following among investors who have noticed the strong stock performance of his operating companies. On July 26, Perelman got a license to operate a casino in Atlantic City and has applied for a license in Nevada.

The billionaire is throwing around his money in Washington, too, playing both sides of the fence. He is a major contributor to Senator Bob Dole (R-Kan.). Newly married to Democratic activist Patricia Duff, his third wife, Perelman hosted the President at his Palm Beach mansion for a Clinton fund-raiser.

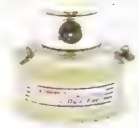
LOVE THOSE LOSSES. Perelman gave BUSINESS WEEK broad access to his operations. Interviews with Perelman executives and competitors, bankers, and analysts show a complex corporate structure that gives him great flexibility and control, an aggressive use of debt that has supercharged profits, and hard-ball tactics that helped him win many a battle.

Perelman has set up his empire with a clever structure that yields tax, financial, and management benefits. A particular feature: the many holding companies that own the operating companies. Five operating companies have done IPOs, but MacAndrews & Forbes usually retains an 80% or greater interest. That allows Perelman to consolidate income from all of his companies—which saves big bucks on his tax bill. He can offset profits at one company against losses at another, paying taxes only on the net amount.

The structure also gives Perelman an efficient way to lever

Delicate Balance

Far from being a haphazard jumble of properties, the Perelman empire of holding and operating companies has been shrewdly structured to reap maximum benefit in terms of taxes, financing, and management



Ronald Perelm

MAFCO HOLDING

M&F GROUP

MacANDREWS & FO HOLDINGS

REVLON WORLDWIDE
COSMETICS

REVLON INC.

REVLON CONSUMER PRODUCTS

COLEMAN HOLDINGS
OUTDOOR RECREATION EQUIPMENT

COLEMAN WORLDWIDE

83% COLEMAN CO.

MERIDIAN SPORTS HOLDINGS

65% MERIDIAN SPORTS
BOATING

BOSTON WHALER

MASTER CRAFT

O'BRIEN

C&F HOLDINGS
CIGARS, FLAVORINGS, AEROSPACE

86% MAFCO CONSOLIDATED

MVR

CONSOLIDATED CIGAR

MAFCO WORLDWIDE

31% POV CON TECHN

PRINCIPAL HOLDING COMI

OTHER HOLDING COMPAN

PUBLIC OPERATING COMP

PRIVATE OPERATING COM

% LESS THAN 100% OWNED

LIEUTENANTS GITTIS, SLOVIN, AND DRAPKIN ARE PAID MILLIONS–BUT GET NO EQUITY

the equity he has in his operating companies while mini-
ng his exposure. Three Marvel holding companies, for ex-
le, have issued $620 million in public debt secured by
lman's 48 million shares of Marvel Entertainment stock.
that money is used not by Marvel Entertainment but by
lman to buy other companies. By issuing debt in three
rate holding companies, he limits the legal liability of

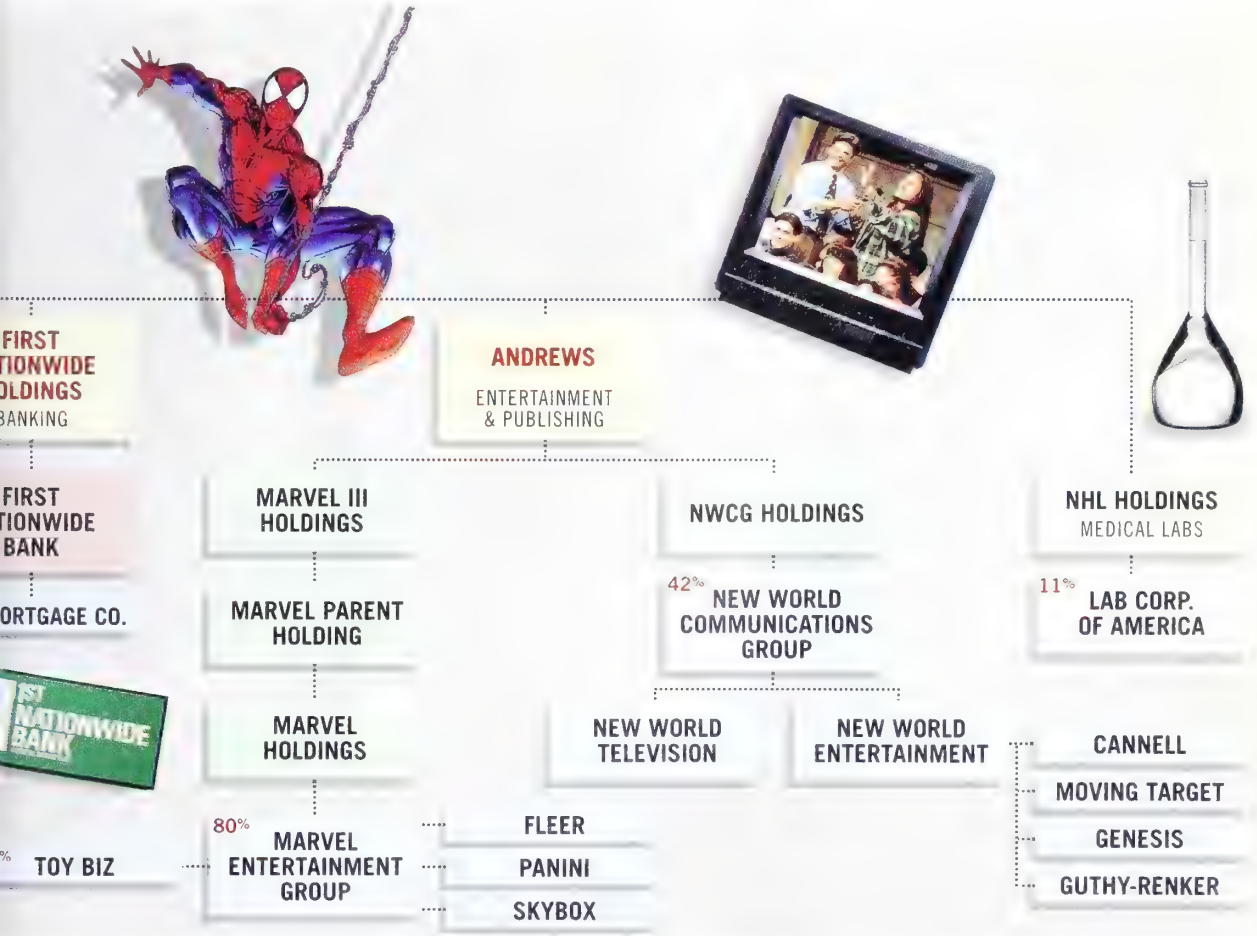
MacAndrews & Forbes.

Perelman uses the tax code to his advantage in other ways. "He knows how to use net operating losses better than anyone," says Robert Willens, a tax analyst at Lehman Brothers Inc.

Perelman really hit the NOL jackpot in 1988. The Federal Savings & Loan Insurance Corp. was so desperate to get rid of a group of Texas thrifts, First Gibraltar, that it cut Perelman a hugely generous and controversial deal. The Texas market quickly rebounded, giving Perelman a $1 billion profit when he sold the thrifts, plus an additional $3 billion in NOLs. He can use these losses for 15 years to offset income elsewhere in his empire. The savings even let him bid $75 a share for Coleman in 1989, against the $68 a share bid by the Coleman family, in an auction for the family business, says Sheldon Coleman, the founder's great-grandson.

True, Perelman has paid what appeared to be top dollar at the time for companies with strong brand names, such as Coleman and Marvel. But by exploiting and licensing the brand names, he has made those high prices look like bargains. More often, Perelman is a bottom-fisher. He likes sellers desperate to unload their companies. He bought money-losing First Nationwide Bank from Ford Motor Co. for a rock-bottom $700 million in 1988. The company is now thriving under Perelman management. "First Nationwide is a home run," says analyst Pitsinger.

After winning such bargains, using mostly borrowed money,



PERELMAN, WITH MODELS VENDELA, CRAWFORD, AND SCHIFFER, REVELS IN THE GLITZ THAT GOES WITH REVLON

Perelman sells off secondary divisions and uses the proceeds to pay down the acquisition debt. Then he starts building the company, with economies and acquisitions. In the case of First Nationwide, he closed a mortgage-servicing office in Sacramento and moved it to a unit in Frederick, Md., called Federal Standard. First Nationwide bought Federal Standard from the Resolution Trust Corp., but only after the RTC laid off half the staff. Less staff and lower Maryland salaries have cut the cost of processing a loan from $109 to $65.

One of Perelman's criteria is more subjective: He favors companies with products or businesses that he would enjoy owning. "I love coming into work. I would not love making widgets," he says. He enjoys the glitz and celebrities that go with owning Revlon, for example. "He likes to have association with products with recognition. Q. E. D., he likes recognition," says a friend.

Perelman has a lot of help grabbing the right purchase at the right price. "There is not much we don't look at," says Gittis. MacAndrews Forbes has just 20 profe sionals, including three ar lysts who crunch numbers deals full-time. His top pe ple are Gittis, a Philadelph lawyer whom Perelman has described as his close friend in the world, Donald Drapkin, a former Ska den, Arps, Slate, Meagher & Flom attorney, a Bruce Slovin, a Harvard-educated lawyer.

While he pays his top lieutenants generously Wall Street sources say each earns about $10 milli a year—they don't get any equity, a measure Perelman's desire for control. The men are virtua inseparable, having breakfast and lunch together most every day. The elegant townhouse has somethi of a fraternity house atmosphere, as they argue, t jokes, smoke cigars, and generally have a good tir

Perelman's advisers have known him long enou to be able to tell him their honest opinion. "God know Ronald has an ego," says a Perelman banker. "But this is n a reverent crowd. It's like being around the dinner table someone's home. They don't kiss his ring. I've heard them him he's a putz."

"MASS, NOT CLASS." Perelman's dealmeisters also maint close relationships with financial firms that, in turn, bring h the best deals. Perelman spreads his considerable inve ment banking business around and supports talented banke These ties also give him an advantage in bidding wars. I example, when Perelman bid for Coleman in 1989, he had trouble getting a bridge loan from Citibank and passing d diligence with the Coleman board's investment bankers. S Sheldon Coleman: "They trusted his staff with the numbe so they didn't feel they needed to do their own."

Perelman is also steeped in the operating end of his bu nesses. When the chief executives of his companies are New York, they come to breakfast with Perelman and his

PUTTING TOO GOOD A FACE ON REVLON?

Just what is Revlon worth in a public offering? Revlon won't comment, but sources close to Revlon maintain its value is $4.7 billion. Here's how it's calculated: Assume that Revlon is similar to four other publicly traded, personal-care-product companies: Gillette, International Flavors & Fragrances, L'Oréal, and Procter & Gamble. Now, take two yardsticks for determining value: the multiple of sales and the multiple of cash flow that each company's stock trades at. The highest of the four, IFF, trades at 3.87 times sales. The average of the four is 2.63. Then, take IFF's multiple together with the 2.63 and average them, which yields 3.25. Apply that to Revlon's estimated 1995 sales of $2 billion. The result: $6.5 billion. Do the same for cash flow, where Gillette is the top multiple, at 14.6, and you'll get $2.9 billion. Averaging these two measures yields $4.7 billion.

CHIEF EXEC JERRY LEVIN

This method seems misguided. Averaging the mean and the maximum multiples biases the results upward. Moreover, it seems optimistic to compare Revlon with Gillette and IFF: Both have a virtual lock on their markets. Sure, one investment banker justifies the use of the maximum multiples because this year Revlon is growing faster than Gillette. But one year doesn't make a trend, especially in highly volatile cosmetics. A more conservative comparison is L'Oréal, the French cosmetics outfit. Using L'Oréal's multiples, Revlon would fetch $2.7 billion. Indeed, one non-Perelman investment banker comes up with the same figure.

Tutored in business by his father, Ron was attending board meetings of his father's companies by age 11

at Perelman's townhouse, which adjoins the MacAn-
s & Forbes offices. Perelman receives daily or weekly in-
ation on each company and gets involved in details. For
ple, Coleman's management displayed their new products
e MacAndrews & Forbes boardroom this spring. Perel-
immediately picked out the best in the lineup, an upscale
ing lantern, and the worst, a pedestrian cooler. "He
s the cooler is not quite there yet. It is intuitive with
ld," says Michael N. Hammes, Coleman CEO and ex-
dent of Chrysler International.

e pressure to grow internally and by acquisition is con-
. "I don't think anyone is quite as driven as Ronald," says
ld J. Ford, chief executive of First Nationwide Bank.
example, Coleman has spent $150 million on seven compa-
since 1993, including a backpack outfit, an aluminum-furni-
company, and an Italian camping-equipment company.
result: Coleman's sales have soared from $575 million in
to an estimated $950 million in 1995.

relman is shaking up the cosmetics industry. For
years, Revlon was a straggler.
made some bad
e choices, and they
lot of crappy prod-
' says Allen Mottus,
metics industry con-
t. Then in 1991, Per-
brought in Jerry W.
n as CEO of Revlon
vent with a "mass, not
' strategy, a risky and
nsive move. Revlon
its products out of de-
ment stores and now
them almost entirely at
stores, Wal-Marts, and
rts. Revlon also devel-
strong lipstick and make-
oducts and charged more
drugstores had in the
The company's Color Stay
ck and Age Defying make-
re blockbusters, boosting
on's market share and mov-
Revlon to second place from
in mass market cosmetics
. "Now we have a plan to take us to No. 1,"
Levin.

THIRD WIFE DUFF IS A DEMOCRATIC FUND-RAISER

BIG FOX SWITCH. After a few false starts,
lman also is stirring up the TV business. In
Perelman spent $145 million to buy New
d, then a second-rate Hollywood studio.
discovered that the television industry
onger wanted to buy its library of
cky movies and cornball sitcoms. So
lman and his top entertainment execu-
William C. Bevins, junked the movie
ness and piled on nearly $1 billion in
to buy 12 television stations—six out
nkruptcy.

hat really could make New World an
tainment powerhouse was Perelman's
buster 1994 deal with Fox to switch
his stations from affiliation with CBS
to Fox—the largest number of affiliates ever to switch. The deal with Fox, and another deal to switch the remaining two stations from NBC, gave New World guaranteed time slots for their shows on the Fox network, lifting the reach of Perelman's TV productions from 14% to 40% of the U.S. market. Further, Fox pitched in with $500 million. To produce hit shows for the networks and syndication, Perelman brought in Tartikoff, a former top NBC executive, and Stephen J. Cannell, a producer of action-TV shows. While some in Hollywood say Tartikoff has been away too long, he has already converted two out of five pilots into network shows. That batting average, says baseball fan Tartikoff, is something "Tony Gwynn would love to have."

Cover Story

PLAYING HARDBALL. The biggest wave that has lifted Perelman's boat is leverage. The holding companies alone have $2.6 billion in publicly traded debt and preferred stock. (Gittis puts that number at $1.8 billion because he doesn't count preferred stock and certain holding-company debt issues.) Compare that with the operating companies, which have an estimated combined market value of $8.1 billion (table, page 54).

Perelman says that his empire is not overleveraged. He limits his holding-company debt to 20% of the equity value of all of his companies. Perelman figures his companies grow around 20% a year and his debt costs him only about 10%, so he's sitting on a money machine.

A darker side to Perelman's success has been his willingness to play hardball and make enemies. This July, the public caught a glimpse of his tough side in a lawsuit filed by Fred Tepperman, Perelman's ex-chief financial officer. Tepperman charged that Perelman fired him for taking too much time off to care for his sick wife. In court testimony, Tepperman described a boss who yelled and screamed, and demanded 24-hour-a-day dedication. Perelman fought the claims, saying that Tepperman shirked his duties and took advantage of his generosity, but he abruptly settled the matter for a rumored $10 million.

Perelman also just concluded a bitter suit over his 1983 purchase of Technicolor Inc. for $125 million. The $625 million in profits Perelman made when he sold Technicolor was what fueled his future empire building. Cinerama, a 4.4% shareholder of Technicolor, objected. Cinerama says Perelman was able to buy the company dirt cheap because Technicolor directors didn't solicit other bids—because Perelman rewarded the CEO and two directors, as the court found in an earlier 1993 decision. Perelman paid one director $150,000 to introduce him to the CEO and promised the CEO increased compensation for backing his bid. Still, after a 13-year

WITH HIS DAUGHTER, SAMANTHA, AT A DISNEY PREMIERE

PHOTOGRAPHS BY VICTOR MALAFRONTE/CELEBRITY PHOTO

Revlon floundered for five years before a turnaround. "Ron made some bad people choices," says a consultant

legal battle, in July, 1995, Perelman won. The Delaware Supreme Court decided that even though the directors were negligent, shareholders still got a fair price.

Perelman's ruthless reputation also comes from his hostile bids for Revlon and Gillette. In old-line corporate circles, his Milken-backed bid for Revlon was viewed as the vandals breaking into the citadel. In 1986, Perelman went after Gillette and collected $39 million in greenmail from the company to go away, a reviled practice. When he tried to acquire Salomon Brothers Inc. in 1987 and Shearson Lehman Hutton Inc. in 1990, he was repelled both times. The reason: His reputation wouldn't play well with conservative investment banking clients. "There was a prejudice against him. He was a Drexel client. There was some aversion to that sort of stewardship," says former Salomon CEO John H. Gutfreund.

Cover Story

To anyone who knows the Perelman family, his aggressiveness isn't surprising. His father, Raymond G. Perelman, the son of a Lithuanian immigrant, is himself a corporate raider. In 1993, at age 75 and chairman of Philadelphia-based RGP Holding Co., he launched a campaign against Champion Parts Inc., an Oak Brook (Ill.) auto-parts maker, in an effort to revive the company's sorry stock price. He used his seat on the board to oust the CEO and took the job himself. A month later, the directors removed him from the job. "He's a rough customer," a director told *Crain's Chicago Business* in early 1993. "A month of him as CEO was all the board could take."

It was probably Raymond who was the biggest factor in Perelman's success. Raymond apprenticed Ronald from an early age in the craft of acquiring and running companies. He would take Ronald with him to see companies he was thinking of buying, and afterward, during the car ride home, the two would discuss the merits of the deal. By age 11, he was coming to board meetings, and as a teenager he read balance sheets and annual reports after school.

ON THE GOSSIP CIRCUIT. After Perelman graduated from the University of Pennsylvania's Wharton School, the two worked together. By 1978, Perelman was itching to run the company. One day, he asked his father when he would get the title of president. Raymond said he wasn't ready to give it to him. So Perelman decided to move to New York and step out on his own. It took six years to reconcile with his father after the break.

But while Perelman's career was going gangbusters, his private life was tumultuous. In 1965, at age 21, he married Faith Golding, the daughter of a wealthy Philadelphia real estate family. They had four children. But a messy, public divorce followed in 1983, with Golding filing a statement with the Securities & Exchange Commission asserting that Perelm tried to usurp some of her assets. In early 1985, Perelman m ried Claudia Cohen, a gossip columnist. They had a daugh and became staples of New York's gossip columns. They vorced in 1994, with Cohen getting a rumored $80 million s tlement. Perelman and his current wife, Patricia, had a priv wedding in December, 1994, just before she gave birth Perelman's baby and converted to Judaism. A security fana Perelman employs the former acting director of the FBI his director of compliance and travels with two beefy bo guards.

LUBAVITCHER BOOSTER. Perelman is a generous but dema ing father. When his son Josh got engaged, Perelman insis that Josh's fiancée sign a prenuptial agreement. She di sign one, and Perelman showed his disapproval by not tending his son's March wedding. Josh's older brother, Stev works at Revlon and is being groomed for a leadership posit in the business. "It's theirs to take or not to take," says Pe man. "I plan to leave my assets to my children, so they sho be interested in running the

A constant in Perelman's seems to be his religion. observes the Sabbath and e kosher food. He is a major s porter of the Lubavitchers, ultra-orthodox sect that veres its deceased leader, R bi Schneerson. This June, P elman chaired a dinner held Washington at the Grand H att commemorating Ra Schneerson. The billiona couldn't have been more inc gruous. Wearing a yarmu and accompanied by his s Steven, Perelman radia wealth and worldliness with trademark cigar, his public-r tions man, and a personal sistant toting a cellular pho He was surrounded by m with white beards and l black frock coats, whom greeted with warm embrac

CAN TV LUMINARY TARTIKOFF TURN PERELMAN INTO A MEDIA MOGUL?

Perelman's success in buying and sticking w companies has helped him shed his 1980s raider age. Times, too, have changed. In the 1990s, w such companies as IBM and AT&T making hos bids, an '80s-style raider is no longer anathema. (Would Pe man launch a hostile raid today? "Absolutely," he says.) T April, he was a keynote speaker at the National Associatio Broadcasters convention in Las Vegas, where News C Chairman Rupert Murdoch and Barry Diller also spoke.

So where does one of the country's richest men go f here? Perelman says he has no grand plan. He just p chased 50% of *Premiere* magazine as a publishing "labora ry." He's looking for a site in Manhattan to build a Ma theme restaurant. And Bevins says New World wants buy a record company. Given his restless ambition and proclivity for the spotlight, the Perelman empire is sure keep growing.

By Leah Nathans Spiro in New Y with Ronald Grover in Los Ang

GULATION

THE REGULATORS REIN THEMSELVES IN

ey're preempting GOP attacks by easing rules now

LAND RIGHTS: *Small properties win some relief*

harles Gelman, CEO of Gelman Sciences Inc., based in Ann Arbor, Mich., recently won approval from the Food & Drug Administration new line of medical filters in a speed 8 weeks instead of the typ- 8 months. David E. Zeldin, director porate safety at Harry J. Rashti & Bayonne (N.J.) importer, just set- complaint about dusty floors with Occupational Safety & Health Ad- tration—without a nasty fight.

o thankful beneficiaries of the GOP's -trumpeted legislation to gut cost- gulation? Not quite. The unlikely s in this business-friendly red-tape ng are the Clinton Administration ators themselves.

HELP. Call it anticipatory reform. se after case, Clinton-run federal ies are responding to recent GOP ks on Capitol Hill by quietly rolling regulations and reining in enforce- And after years of condemning Washington's ways, business is suddenly cheering. "It was the first glimmer of hope that OSHA was actually trying to help business rather than tearing America apart," marvels Rashti's Zeldin.

The reason for the turnabout: The GOP rout of Congress opened hunting season on regulators. On July 28, Representative Tom DeLay (R-Tex.) compared the EPA to the Gestapo. Days later, Representative David M. McIntosh (R-Ind.) suggested that FDA Commissioner David A. Kessler was killing women. How? McIntosh claimed FDA's ban on some breast implants may be scaring women away from having mammograms.

Harsh words—backed by harsh deeds. On July 31, the House of Representatives upheld a series of riders to EPA's 1996 funding bill, which would gut the agency's ability to enforce anti-pollution laws. Besides curbing OSHA regulations, both the House and Senate are readying bills that could seriously weaken the FDA's authority. "People are fed up with the federal government and overburdensome regulations," says DeLay.

In some instances, the newfound deregulatory religion is simply the result of direct congressional pressure. OSHA, for example, is scaling back rules aimed at preventing repetitive-motion injuries, after Congress passed a bill ordering them to steer clear in fiscal 1995.

More often, agency moves have been preemptive. In April, Comptroller of the Currency Eugene A. Ludwig pulled back on a controversial Community Reinvestment Act rule requiring banks to gather race and gender data on small-business loans. That helped to mute howls for more sweeping deregulation. Says Edward L. Hudgins, director of regulatory studies at the Cato Institute: "The Clinton Administration is throwing red meat at its attackers. Their strategy is to buy off the most vocal critics and head off dramatic reform."

The Clintonites take a less Machiavellian view. They note the seeds for reform were sown with Vice-President Al Gore's Reinventing Government initiative long before November's election. And they aren't shying from regulating tobacco and beefing up meat inspection, which they consider crucial to public health—and widely popular.

But even Democrats admit the GOP victory moved the reinvention effort "to

linton's eregulators

the GOP Congress tries pass regulatory reform, e Administration's agen- s are rushing to roll back gulation on their own:

EPA

- More lenient rules on Superfund site cleanup
- Easing rules for small landowners who want permits to develop wetlands

INTERIOR

- Exempted owners of five acres or less from provisions of Endangered Species Act

FDA

- Reduced approval times for drugs and medical devices
- Allowing drugmakers to make minor changes in manufacturing processes without lengthy approvals
- Delayed proposed rules, such as one establishing a hot line to report health problems from cosmetics

OSHA

- Slowed planned regulations on repetitive-motion injuries and tighter standards for construction worker safety

OFFICE OF THE COMPTROLLER

- Pulled back from requiring banks to gather race and gender data on small-business loans

DATA BUSINESS WEEK

the front burner," says one White House official. Before November, recalls EPA's New England Regional Administrator John DeVillars, the agency's watchdogs reveled in nailing companies for trivial violations, such as being a few days late with paperwork. "The election caused the career civil servants to realize that if we didn't change, we risked losing the whole system," DeVillars says.

Now, the penny-ante stuff has become passé. "We're focusing a lot more on real risks," DeVillars says. The agency is asking field investigators to work with small businesses to correct violations, rather than simply hitting them with penalties, recent internal EPA memos show. As a result, civil enforcement actions agencywide are down 33% in the fiscal third quarter of 1995 compared with the year-earlier period.

It's not just enforcement. The Interior Dept. has exempted properties of five acres or less from rules to protect endangered species. EPA also announced it will be more lenient in determining required cleanup levels at Superfund sites. And it's beginning a pilot project that would give companies far greater flexibility in determining how they will comply with pollution rules.

BACKLASH? Likewise, the FDA is allowing more medical devices to reach the market without agency scrutiny and permitting drugmakers to make minor manufacturing changes without lengthy approvals. On Aug. 2, Gore and Clinton promised similar relief at agencies ranging from the U.S. Army Corps of Engineers to the Nuclear Regulatory Commission. Rulemakers such as the EPA "really have taken a major step forward," says Thomas Zosel, manager of environmental initiatives at 3M.

All this zeal has its risks. First, the effort has yet to soothe GOP reg-slashers. "The President can say he's solving these problems, but agencies continue to beat up on people," says Representative McIntosh. And it's provoking a backlash from environmentalists and consumer advocates. "It's a poor strategy to assume that the attack on our environmental laws will be slowed by preemptively gutting them," fumes John Passacantando, director of Ozone Action, a nonprofit group.

It's uncertain if Administration regulators can successfully navigate between the Scylla of the Republican Congress and the Charybdis of the environmentalists and public advocates. But for the moment, many companies are pleasantly surprised that the ferment in Washington has paid a dividend far faster than they ever imagined.

By John Carey, with Mary Beth Regan, Howard Gleckman, and Susan B. Garland in Washington

STOCK MARKET

THE WORLD ACCORDING TO BEARS

Profits can't last, the dollar's too low. The end is nigh

A bear in a bull market is like a prohibitionist at a cocktail party. At first, some people take his admonitions to heart and sip soda water. But as the party goes on, nearly everybody joins in the drinking. Scorned, scoffed at, and—worst of all—ignored, the prohibitionist slips out to await the morning after.

Well, if you talk to a stock-market bear now, it's almost the morning after. Sure, you've heard that before. The bears said it when the Dow Jones industrial average was at 3800, at 4000, at 4500, and now in the 4700 neighborhood—where the Dow has been stuck for the past month (chart). But the longer the duration of the upmove—and the greater its magnitude—the better the odds that the bears will be right. Among many signs, the bears point to wild speculation in initial public offerings—shares in Netscape Communications Corp. zoomed from 28 to 75 when stock in the Information Highway company went public on Aug. 9—as a sure sign of trouble. The stock closed at 58¼.

"The high-flying technology stocks, the crazy IPOs, and the money pouring into mutual funds all indicate the stock market is in a mania," says Leo F. Hood of Gainesville, Fla., who publishes *Ripples in the Wave*, a stock market newsletter, and *ProFiles*, a fax service for institutional money managers. "And manias always end ugly."

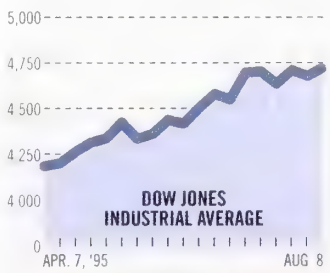
RED FACES. Hood's worst-case scenario is gruesome. He believes the bull market will end in panic-selling so severe that the Big Board will have to temporarily halt trading under a rule enacted after the 1987 crash. For that to happen, the Dow would have to fall more than 250 points from the previous day's close. Says Hood: "If investors start redeeming their mutual funds, and the funds have to sell,

who are they going to sell to?" [illegible] timetable for the calamity: by the en[illegible] this year.

Rest assured, few bears have s[illegible] dire forecasts. But Jim Schmidt, wh[illegible] *Timer Digest* follows the soothsay[illegible] finds Hood's warnings worth consid[illegible] tion because he [illegible] shown his mettle [illegible] tough times, too, [illegible] ning the newslett[illegible] 1994 Timer of the [illegible] award.

The runaway [illegible] market left m[illegible] veteran gurus [illegible] faced and apolog[illegible] "Even if the ma[illegible] crashes tomorro[illegible]

THE DOW FLATTENS



DATA: BLOOMBERG FINANCIAL MARKETS

be vindicated," says Dan Sulli-
whose 25-year-old newsletter, *The*
tist, based in Seal Beach, Calif.,
een bearish since April, 1994.
retrospect, Sullivan thinks he
d have led his readers back to the
et in late February, when his mon-
indicators—based on 10-year and
ar interest rates—turned positive.
his long-term-momentum indica-
which measures technical factors,
as the number of stocks making
and lows and the trading vol-
—was negative and still is. The
ical indicator needs fixing, says
an, but he remains bearish none-
ss because the recent back-up in

pushed the monetary indicator
he negative zone.
with bulls, the bears take different
to arrive at similar conclusions.
are some of those bears:
acrophobic bear. "Most stocks are
d too high," says Michael Metz,
market strategist for Oppenheimer
., who turned bearish in early June.
studies stocks through traditional
tion yardsticks, such as earnings,
ends, and replacement cost. "The
way you're going to make money
g overpriced stocks is if they be-
more overpriced," says Metz. "And
not investing." The few remaining
s, he says, are in such consumer
th stocks as Merck, Warner-Lam-
H.J. Heinz, and Gillette and in-

dustrial commodity producers, such as Alcoa, Inco, and International Paper.

■ *The profit bear.* "Corporate profits are unsustainably high," argues David G. Shulman, chief investment strategist at Salomon Brothers Inc. Shulman argues that companies have boosted profits by restraining wages, a situation that, absent a recession, cannot last. Of course, if there is a recession, wage pressure will be off—but so will profits.

Don't forget the dollar, adds Shulman, which is "unsustainably low." The cheap dollar helped U.S. companies two ways: by making their exports cheaper and by boosting the earnings of their overseas subsidiaries when translated back into dollars. If the greenback rises—it's already climbing against the yen—it could hurt the U.S. profit picture and thus the stock market.

As a strategist for a major investment house, Shulman is a genus of bear that rarely recommends a drastic bailout. So, compared with newsletter bears, his advice sounds bullish. For balanced accounts, he suggests 45% stocks, 30% bonds, and 25% cash. That's a big cash position coming from a Wall Street firm. Moreover, look at his stock selection: He's recommending natural resource and consumer cyclical companies and real estate investment trusts, sectors that have lagged the market this year.

■ *The risk/reward bear.* James B. Stack, who publishes two *InvesTech* market letters in Whitefish, Mont., regrets missing the Dow's 1000-point run but says it's no time to play catch-up. Since 1950, says Stack, 75% of the bull market profits have been made by the midpoint of the economic expansion. And since the current expansion is old, about 53 months, he figures it's too mature to produce much more in market gains. Stack estimates that from current levels, the Dow could reach 5100 within the next 12 months—but it also could plunge to 3700. Says Stack: "That's a bad risk/reward ratio."

FEAR OF HEIGHTS

"The only way to make money buying overpriced stocks is if they become more overpriced. That's not investing"

—MICHAEL METZ

■ *The technical bear.* These seers don't focus on such fundamental factors as earnings or monetary policy but look at myriad measures of stock-price and volume activity. Market-watcher Justin Mamis of Hancock Institutional Equity Services says the diminishing number of stocks making new highs shows that the market is tiring. Perhaps more worrisome, he says, is that investors seem not to have any fear, and in Wall Street's contrary ways, that's a negative. "These money managers go on CNBC and say, 'So what if the market has a correction?'" says Mamis.

So what? Mamis, who began drawing stock charts in 1953, shudders at the thought. Many of today's investors—including managers of mutual funds—have lived through only two bear markets, in 1987 and 1990, both a few months' long. Mamis, like many other now-bearish advisers, remembers the bear markets of the 1960s and 1970s, when painful hangovers from wild bull markets lasted for years, not months. Those memories are what keep these bears sober and what may cause other investors to go on the wagon.

By Jeffrey M. Laderman in New York

CHUNNEL TRAINS *Who knew what when about a ne stock issue?*

INSIDER TRADING

NOT QUITE CRICKET IN THE CITY

Irregular trading at the London Exchange is rarely probed

The pattern is all too familiar. For no apparent reason, a company's share price skyrockets on the London Stock Exchange and its trading volume surges. Alarm bells ring at the exchange, which demands an explanation. Within hours, a major announcement—the company is in merger talks or is planning a share buyback—reveals what the excitement was all about. And embarrassed exchange officials begin yet another investigation into why everybody and his brother had the news before they did.

London's dirty little secret is that share prices routinely spike in the four or five trading days before major corporate announcements. Twice in six months, unusual trading in the shares of investment bank S. G. Warburg Group PLC forced it to reveal talks with a merger partner. Two other merchant banks, Kleinwort Benson Group PLC and Smith New Court PLC, likewise have had to announce takeover discussions prematurely. British oil company Lasmo, paper manufacturer Portals, tobacco company Rothmans International, and even Sleepy Kids, the tiny firm that licenses a cartoon charac created by t Duchess of York, had pre-news sha price hikes in t past nine mont All deny involv ment in any lea and are unable explain how th occurred. And cently, seve banks were suspe ed of short-selli Eurotunnel shar some on the Lond Stock Exchange, advance of a n stock issue.

Certainly, son body's spilling t beans in Lond What's less cert is that anyone is ing to do anyth about it. The L upset by the apparent rise in insid dealing and the harm to the exchang reputation, so far has failed to arr it. As Europe's other major bour make insider dealing a top prior Britain's Conservative government ficials, who decide when to prosec for insider trading, seem unruffled the trend.

> The Conservatives seem unruffled over some rather smelly coincidences

POLITICAL HAY. Insider dealing has be a criminal offense in Britain since 19 but critics say enforcement has been most nil. The Department of Trade Industry, led by Michael Heseltine u his promotion last month to Dep Prime Minister, is responsible for inv tigating and prosecuting cases. T stock exchange has referred more th 64 cases since 1991, but the DTI w say whether these are pending or h been quietly closed. One celebrated vestigation was dismissed without p ecution a year ago when the DTI co prove no wrongdoing: Lord Jeffrey Archer, former Conservative Party d uty chairman and best-selling novel was charged with buying shares i television company on whose board wife sits, then selling after a takeo bid was announced.

Smelling a good issue, the opposit Labor Party considers insider deal to be a sign of systemic regulatory f ure and promises to clean things up wins the elections to be held by M

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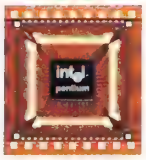

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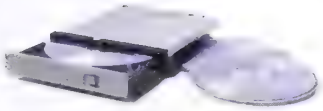

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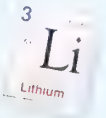

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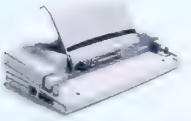

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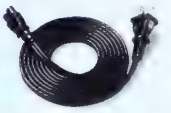

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British law allows only for criminal prosecution of insider traders and imposes a tough burden of proof

1997. Jonathan Church, a DTI spokesman, says his department is doing its best within the confines of the system. "The offense of insider dealing is very difficult to prove," he says. "It's the Home Office's responsibility to seek changes in legislation."

The DTI has brought just 34 cases in 15 years. By comparison, the U. S. Securities & Exchange Commission has pursued more than 450 cases since 1980. In the past three years, the DTI has opened seven cases involving 15 individuals. Of those, six were found guilty and nine were acquitted, for a 40% success rate. In the same period, the SEC has lost no more than a handful of its 110 cases.

Critics say that with detection and punishment so rare, insider traders are emboldened. "When these problems aren't dealt with, people interpret that as a sign we're not serious about cleaning up the market," complains Alistair Darling, Labor's spokesman on financial issues. His solution: wholesale reform of the regulatory system, including eliminating the confusing array of self-regulatory bodies and tying them all into one agency. While this agency would not be an independent, SEC-like body, it would have expanded powers to pursue insider dealing.

EMERGENCY BRAKE. The stock exchange isn't completely powerless to prevent the spread of the insider virus. Chief Executive Michael Lawrence would not comment for this story, but through a spokesman points to several recent measures. For example, last fall, the exchange announced that it would alert traders by way of electronic screens when a company's shares are trading outside normal ranges. The exchange can even stop trading if it appears that price-sensitive information has leaked.

Critics claim that the government is largely indifferent to the problem. That conclusion isn't surprising. In March, the government allowed the sale of its 40% share in two utilities to go forward, even though officials admit they knew that the regulator might soon force both companies to lower rates. The government's prospectus did not mention a possible rate cut. One day after the sale, in which the government raised $6 billion, the regulator's announcement sent the shares plummeting. An internal investigation, just ended, cleared the Treasury officials involved of any wrongdoing.

In fairness, however, all blame doesn't lie with those in office. Some of the disparity in successful enforcement in Britain and the U. S. can be explained by wide differences between British and American securities laws. The SEC relies heavily on civil law, where the burden of proof required to obtain a conviction is much less stringent than under criminal law. And when the SEC pursues criminal cases, lawyers make heavy use of plea bargaining. They can grant immunity to important witnesses or allow defendants to plead guilty to minor offenses in exchange for information.

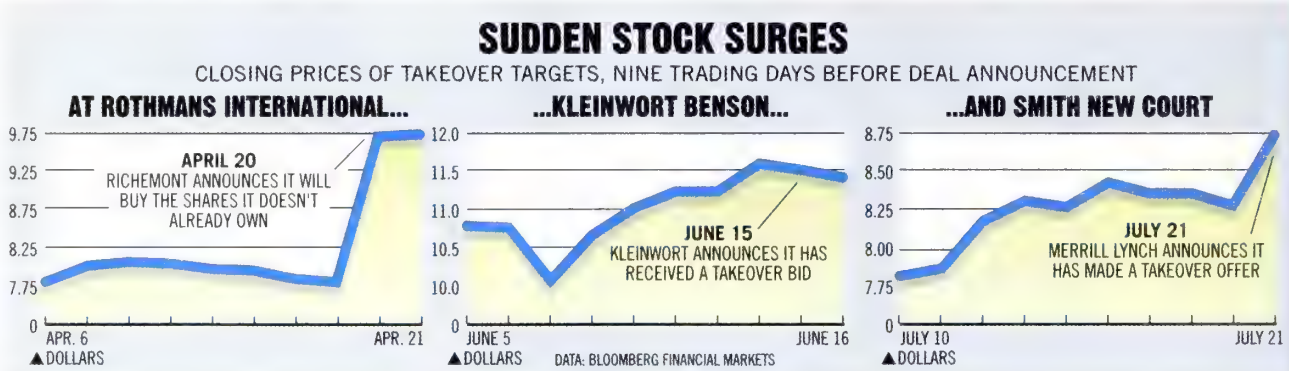
British law allows only criminal prosecution, so the government must prove beyond a reasonable doubt that a trader obtained inside information—and willfully violated the law. Such standards amount to requiring written confessions. There's no such thing as plea bargaining.

As London struggles, authorities at other major European bourses seem more gung ho. France's securities watchdog, the Commission des Opérations de Bourse (COB), in 1989 was granted SEC-like powers to obtain search warrants, seize evidence, and even pursue cas without going through the courts. six years, it has started 494 investig tions, of which 135 were referred court. Since 1991, when the law to full effect, 27 COB insider cases have r sulted in sanctions of one kind or a other. In one famous example, a Finan Ministry official last year was sentenc to two years in prison for passing on i side information about packaging comp ny Pechiney's intentions to acquire T angle Corp., a U. S. company.

More recently, in late July, COB a thorities alleged that some banks m have engaged in insider trading in Eur tunnel Group stock in the three mont before the troubled Anglo-French co pany issued new shares. Two underwr ers in the issue, Swiss Bank Corp. a Salomon Brothers Inc., later disclos they are the focus of the investigatio As underwriters, they were privy the price and issue date for the ne shares. The COB is examining wheth they used that information to sell sh large numbers of existing shares in t belief that the new ones would depre the price. Both banks say they act properly and expect to be cleared any allegations of wrongdoing.

The London Exchange now trad more foreign than domestic stocks a competes with the New York Stock E change for new listings. If Londo market is seen as opaque, it could l out over the next decade as newly p vatized companies choose where to li Investors need to know that Britain's nancial system doesn't let insider tra ers get off scot-free.

By Paula Dwyer, with Heidi Da ley in London, Karen Lowry Miller Bonn, Mia Trinephi in Paris, and M chael Schroeder in Washington



BY GENE G. MARCIAL

A ROSY VIEW OF COMPUTERVISION

Rather than avoid distressed stocks, investment pro Marty Sass goes after them. By swinging for ailing companies, he hits many home runs for the $2 billion portfolio of New York's M. D. Sass Investors Services, which scouts companies with buyout potential.

Sass's latest hit—he has a 17.3% stake—is Computervision (CVN), a maker of computer-aided-design software, used in developing parts for autos, aerospace, and other gear. Now at 9¾ a share, Computervision "should double by yearend," predicts Sass, thanks to a "turnaround that's being helped by big contracts." Other pros speculate that Computervision is buyout bait.

Computervision was spun off by its parent, D. R. Holdings, when it sought Chapter 11 bankruptcy protection in 1992. Sass is convinced that Computervision will go the way of his past winners. One was Leaseway Transportation, which Sass bought at 8½ a share in late 1994. In March, Penske Truck Leasing acquired Leaseway at 20.

Sass first bought Computervision in 1994, at 2 to 4 a share, when he saw its new management selling off assets and paring debt of $355 million. (Most debt accrued when D. R. Holdings acquired Computervision in a 1989 LBO.)

The stock rose as contracts poured in: Rolls-Royce signed a $23 million deal in March, 1994. A year later, Mercedes-Benz signed a five-year pact for Computervision's software technology. On July 25, Airbus Industrie, Europe's largest aerospace consortium, signed a $25 million contract. That kicked up Computervision's stock from 7 to 10.

SASS: *Chasing down-and-out stocks*

Sass believes bigger contracts are on the way. So his 1996 earnings forecast of $1 a share exceeds the Street's 60¢ to 70¢ estimate, and his 1995 figure of 56¢ outstrips analysts' 44¢.

Talk is that IBM, Microsoft, and Autodesk are interested in Computervision. "IBM would be happy to snare Computervision or at least have a strategic deal with the company," says a New York hedge-fund manager. And Microsoft would also like to get into Computervision business, he adds.

At 9, the stock price is 10 times the 1996 earnings estimate. "That's darn cheap for a company growing at 100%," argues one analyst. Its peers trade at a 15 to 16 price-earnings multiple. In a buyout, Computervision is worth at least 20 a share, this pro figures.

FEWER NEGATIVES WITH THIS CAMERA?

Investor Jack Silver had wild forecasts for Concord Camera (LENS) two years ago: He predicted that fiscal 1995 earnings would boil up to 70¢ a share, on sales of $100 million, and that the stock, then at 6, would double in a year. Today, the stock is at 4, and Concord posted a 1994 loss of 9¢ on sales of $54.8 million. Fiscal 1995 was its third year of red ink. So has Silver bailed out? Not quite. He has upped his stake from 5% to 7.6%.

This time, though, Silver may be a winner. Whispers are that Concord will sign agreements with 3M and Germany's Agfa-Gevaert, a maker of photo equipment. These deals would double Concord sales of disposable or single-use cameras, which the two companies will market under their own names. The two contracts combined are valued at $25 million, figures one insider.

"That's quite a big deal for Concord, whose sales from single-use camer last year were just $27 million," says New York money manager. Next ye sales of single-use cameras are expe ed to rise to $35 million. Total sal (without adjusting for the 3M and Ag contracts) are estimated at $75 millio

"Sales very possibly will hit $1 million by fiscal 1996," says the p who figures Concord will finally be the black, earning 65¢ to 70¢ a sha Concord now has 20% of the mark for single-use cameras, and Eastm Kodak has 50%. The company aims boost sales of the high-margin dispo ables to 50% from 35% of total sales

PHOENIX SINKS ITS TEETH INTO NE

This is a not-so-usual tale of a forei company buying a U. S. entity spread its wings in America. Phoen Shannon (PHNXY), an Irish compa whose shares trade on the NASDAQ, w hike its sales nearly fivefold—and ju about double earnings—when it go bles up the assets of Ney Dental Int national, a unit of Andersen Group (ANDR). Phoenix and Andersen expect to announce the deal before long.

Phoenix, a manufacturer of alloys and other products used to fabricate crowns, bridges, and other dental work, should attract a larger institutional following in the U. S., says Phoenix President and CEO Ola Johanss Phoenix markets its products solely Europe. Its purchase of Ney, whi had $22 million in U. S. sales last ye gives Phoenix a big foothold in Ame ca, he adds. In 1995, revenues fr Ney totaled $38 million and from Ph nix $11.5 million.

Now at 11¾, with a price-earnin ratio of 15 based on estimated (p acquisition) net of 75¢ a share, Phoe should trade at a higher multiple, s one analyst. The Ney purchase $17.9 million will boost Phoenix' ea ings to at least $1 a share, he sa Ney holds 16 patents for produc serving 3,500 customers worldwide.

INVESTIGATIONS

ROCKWELL: EXPLOSIVE WOES

A fatal 1994 blast brings lawsuits and a federal probe

It was over in an instant. At precisely 9:07 a.m. on July 26, 1994, a brilliant flash and deafening boom swept through a Rockwell International Corp. bunker where five scientists were mixing volatile chemicals. Chemist Edgar Wilson turned away for a moment to open a cabinet. As he did, Wilson later told investigators, an explosion ripped through the open-air structure. When the smoke cleared, he saw a scene of stark devastation: Two colleagues lay dead, a third was badly burned.

The blast that killed Otto Heiney and Larry Pugh and injured Lee Wells, three accomplished propellant experts, apparently is now the focal point of a sweeping federal investigation into alleged environmental abuses at Rockwell's Rocketdyne division, which makes and tests engines for Delta rockets and the space shuttle. On July 13, more than 40 federal agents, including officials of the FBI, Environmental Protection Agency, NASA, and the Energy Dept., swooped onto the 2,700-acre Rocketdyne test facility, 35 miles northwest of Los Angeles, where the accident occurred, and took reams of documents.

TIGHT LIPS. The U.S. Attorney's office in Los Angeles, which is supervising the probe, confirmed the visit but declined any further comment. Sources familiar with the investigation, however, claim that the federal probe was prompted by the California Division of Occupational Safety & Health (Cal/OSHA), which had prepared two separate reports on the incident. One looks at possible criminal conduct, while the other examines alleged civil violations that may have caused the accident. The reports, completed earlier this year, got scant attention until June, when the one on possible criminal behavior was forwarded to federal authorities by the Ventura County District Attorney's office.

Both reports suggest that the Rockwell scientists involved in the accident may have been illegally disposing of hazardous solvents and rocket fuel by incinerating them, to save money. Federal investigators are also looking into whether Rockwell, which has a troubled environmental record (table), may have wrongfully billed the government for proper disposal, according to state government sources. Rockwell won't comment on specific allegations but says its scientists were conducting experiments on the materials, not disposing of them.

The most damaging evidence is contained in the sealed report on the alleged criminal conduct, say sources familiar with it. The report contains a memo to state investigators from Ronald Simmons, an explosives expert and friend of Heiney's, who says the scientist was concerned about disposing of excess chemicals and propellants. Rockwell was planning to close Heiney's partment. "Otto said that they co not legally store the materials any lo er, they could not ship them anywhe and they could not obtain a permit burn them. He said, 'What the hell we going to do?'" according to a copy the Feb. 21 memo Simmons gave BUSINESS WEEK.

Meanwhile, the civil report prepa by Cal/OSHA states that Jon Rozas, rector of safety, health, and fire Rocketdyne, told an investigator t personnel at the test site may ha been disposing of the hazardous mat al. Rozas couldn't be reached.

HUGE CLAIM. Rockwell's legal proble don't end there. The families of P and Heiney recently filed separate l suits against Rockwell, alleging wrong death and seeking damages. In t suit, filed in California Superior C on July 25, Pugh's wife and child claim Rocketdyne concealed "its int tion to cause hazardous wastes to disposed of, improperly mixed, hand treated, burned, stored, and transp ed" in violation of state and federal Rockwell says it has yet to be ser with the suits.

As for the federal probe, Rock says it's cooperating fully with aut ities. The company won't comment the ongoing investigation, except to that there was no excess propellan Rocketdyne. "We are as determine get to the bottom of this as any of

BURN VICTIM: *Injured scientist Lee Wells is airlifted to a hospital after the accident*

igative agencies," ohn Stocker, a Rock- attorney. Rockwell n internal investiga- ito the causes of the vas inconclusive. Still, mpany claims that its sts were developing test for determining er rocket fuel could ely transported.

s latest probe comes ckwell is beginning o huge benefits from ersification strategy. Executive Donald R. has made big strides in weaning 3 billion giant away from defense cting. Distancing Rockwell from g and controversial history of envi- ntal problems has been another . The most serious incident: In Rockwell pleaded guilty to 10 crim- ounts and agreed to pay an $18.5 fine after a federal grand jury that its workers had illegally d and stored nuclear waste at the

WARNING: *At the troubled Rocketdyne test site*

$280,000 for hazardous-waste violations, including burning toxic solvents in open barrels. In 1992, the state fined Rockwell another $650,000 for similar problems at Rocketdyne and other facilities. Rockwell says it won't respond to charges by state regulators, but it says there has been no recurrence of problems. Rockwell also says its environmental record has improved. Last year it won an EPA award for reducing toxic emissions.

It's last year's fatal accident that now most concerns state and federal agencies, say sources familiar with the investigation. The Cal/OSHA reports, which include internal corporate memoranda, interviews with witnesses to the accident, and handwritten notes of investigators, give the most detailed account yet of the events surrounding the explosion. According to eyewitnesses quoted in the report on alleged civil violations, Pugh, Heiney, and three other Rockwell scientists began experimenting with explosives and various chemicals at 8 a.m. The third experiment created a huge explosion and fire that charred five acres. Pugh and Heiney died instantly, according to the state report.

Rockwell says it was conducting legitimate experiments. But sources familiar with the federal investigation say authorities are questioning whether there was any intention of performing a scientific test, given the amount of the material burned and the speed with which the scientists worked. Separately, in February, Cal/OSHA fined Rockwell $202,500 for five workplace safety violations that allegedly contributed to the accident. Rockwell denies any wrongdoing and is appealing.

If federal investigators determine that Rockwell violated environmental laws, the company could face criminal charges and hefty fines. No one believes that would affect Rockwell's bottom line. But the company's efforts to put its long history of environmental woes behind it may have been blown sky-high in the Santa Susana Mountains.

By Eric Schine in Los Angeles

VELL'S BLUES

rial giant has cated in numer- on violations ars. Among the

1995 In July, federal agents swoop onto facility in Santa Susana, Calif., after state investigation suggests scientists may have been illegally disposing of rocket propellants and other hazardous material. Rockwell, which is cooperating with investigators, says its scientists were conducting legitimate experiments.

1992 Rockwell pleads guilty to five felonies and five misdemeanors and agrees to pay $18.5 million in fines after grand jury finds it was discharging hazardous nuclear waste and chemicals into nearby creeks at its Rocky Flats (Colo.) nuclear weapons plant. Total cleanup cost estimated in excess of $3 billion.

cal property own- kwell, alleging its (Ky.) aluminum plant spewed ollutants into ks and streams in Rockwell no s the plant and to assist in $12 nup. It won't n the suit.

Flats nuclear weapons plant in do. Rockwell managed the facility, was owned by the Energy Dept. where, however, has Rockwell had persistent problems than at its tdyne test facility, set among the Santa Susana Mountains. In 1989, ergy survey found widespread nu- ontamination. Rockwell says it had y begun a lengthy cleanup. More y, state regulators claim that they een frustrated in their attempts to ocketdyne to clean up its act. In California's Environmental Protec- gency fined the company a total of

SCIENTISTS

THE POINT MAN IN GERM WARFARE

C. J. Peters' enemies are viruses—and budget cuts

Many days, the man who stands between the American population and lethal epidemics of strange new ailments does so in Teva sandals and sweatsocks. Clarence J. "C. J." Peters, M.D., former Army colonel and chief of the Special Pathogens branch of the Centers for Disease Control & Prevention in Atlanta, earned his stripes investigating outbreaks in remote African and Latin American villages, and picking apart pathogens in government labs. Along the way, he picked up a pathogen of his own: The open footwear is meant to ease his recurring athlete's foot, a memento of some fieldwork in Central America.

LETHAL THREATS. Today, Peters, 55, coordinates the CDC's response at home and overseas to threats such as the lethal Ebola virus, which erupted earlier this year in Zaire and killed 80% of the 296 people it infected. Ebola is just one of a long list of killers Peters watches. Some, such as hantavirus, are already on U.S. soil. Others, with exotic names such as Machupo, Marburg, or Lassa, are just a plane-ride away. It's high-stakes, nerve-racking work, chronicled recently in the best-seller *The Hot Zone* and in the movie *Outbreak*, in which Peters' fictional counterpart was played by sultry actress René Russo. Virus hunting may be bookstore and box-office gold, but in the all-too-real world, Peters must plead for resources to fight strange foreign diseases that don't rank high on the list of U.S. priorities. Americans paid $13.4 million to watch *Outbreak* the weekend it opened—nearly double Peters' budget for a year (table).

Peters' most recent crisis began in May, when he sent a team to Kikwit, Zaire. They found a hospital deserted save for a few patients dying the ugly, bloody death of Ebola. Clean gloves and instruments were scarce. There was no running water, no telephones. But working with the World Health Organization and other scientists, the CDC team instituted careful infection-control procedures and stopped the spread of the disease. This outbreak is now believed to have "burned out," since the longest incubation period is 21 days, and the last known cases were in late June.

That was a triumph. But when Ebola gave up in Africa, it came to Atlanta in test tubes and specimen bags holding blood and tissue from patients. Now, in the CDC's sterile, air-sealed maximum containment lab designed to completely isolate lethal pathogens, no less critical work begins. Peters' team dons plastic suits to open the liquid nitrogen freezers in which over 14,000 Ebola-related specimens are stored, with more arriving each week. Besides patient samples, there are others from monkeys, birds, ticks, bats, and other animals and insects collected along a road that the first suspected Ebola victim walked each day, and where CDC field investigators believe he was somehow infected.

Peters' group may be on the verge of solving a mystery that began in 1976, with the first of four previous Ebola outbreaks. What insect or animal harbors the virus? How does it replicate? How might it be treated? For the first time, scientists were on the scene early enough to take adequate samples and question victims. And Peters' lab now has powerful new biotechnologies in hand. Answers could come in months.

Whether they do or not hinges on whether Peters can get the resources he needs, on whether Mother Nature holds off sending major new outbreaks to dis-

tract his troops, and on whether Pet can keep morale up in a group of vi hunters who are clearly exhausted. " have a high-profile program without ability to do the job in a meaning way," fumes a grim-faced Thomas K zek, CDC's chief of disease assessmen

The budget woes are particularly g ing to Peters, who left the Army af 14 years and came to CDC in 1992 cause military dollars were evaporat for research on these terrifying thre Raised in Texas, he attended Rice U versity, got his M.D. from Johns H kins, and has published over 120 artic

OUTBREAKS: ART VS. LIFE

BUGGED: *Russo on call*

WARNER BROS.' *OUTBREAK*

DUSTIN HOFFMAN'S SALARY
$6 million e

PRODUCTION BUDGET
$54 million

TOTAL GROSS*
$67 million

* As of mid-July
**Includes $789,000 in special non-CDC funding
DATA *DAILY VARIETY*, BUSINESS WEEK

logy. He worked for years in the Health Service before joining the virology research unit. When for the CDC, he says, "I thought vilian community would have a level of effort. I was wrong."

affer on the key House Appro- ns subcommittee argues that CDC's has grown at an "unprecedented ver the past 15 years, and isn't ut in the 1996 appropriations bill. DC is a particular favorite of the r's," he says. "That's why, in a which we had to cut 13% across , CDC had no reduction."

Still, despite having to battle a growing number of outbreaks such as hantavirus and hemorrhagic fevers, Peters' 26-person unit is down four people from when he arrived. Meanwhile, with many pressing domestic health problems, such as the reemergence of tuberculosis, Peters and his staff must constantly explain why the U.S. should be fighting diseases like Ebola in far-off Africa. "Well, I'll tell you," says staffer Dr. Ali Khan. "If a Coca-Cola Co. executive comes home from a trip to Africa with a headache and fever and gives it to his family and people ask us what's he got, we'll all say, 'We don't know. Why would we study some African disease?' "

Virologically speaking, it's a small world after all, thanks to improved transportation. Moreover, overpopulation, political unrest, deforestation, and development are helping to spread disease. "These viruses could be on our doorstep tomorrow," says Scripps Research Institute virologist Michael J. Buchmeier.

SPREAD THIN Answers from Peters' lab could come soon—if his overworked staff aren't taxed with new outbreaks

Make no mistake: Peters is keenly aware he's paid to protect U.S. taxpayers. When he learns of an outbreak, he asks a series of questions: Is the problem here? How easily can it get here? If it gets here, how easily can it spread? When hantavirus erupted in the American Southwest in 1993, Special Pathogens was lauded for identifying the virus in just months.

If Special Pathogens didn't handle these agents, nobody would. "The total capacity of the U.S. to deal with high-hazard agents resides with C.J.'s small unit," explains Dr. Philip K. Russell, president of the Albert Sabin Foundation, which helps promote vaccine development. The military's efforts have been ravaged by budget cuts, while drug companies work only on lucrative vaccines or drugs. And universities can't take on the liability or expense of setting up the labs needed to work on the most dangerous, "level-four" agents.

What Peters needs most desperately is staff, he says. He worries constantly about sending stressed-out scientists into the field or into the labs. Things got so bad last fall that he threatened to close the Special Pathogens lab. "People were tired and anxious to get out of the suits, working too fast, not being deliberate," Peters says. He got the O.K. to add seven people last October, which would have restored his staff to its 1992 level. But bureaucratic delays meant that hiring began only in June. Every time he approves one project these days, something else literally goes into the freezer. When Ebola erupted, for example, Special Pathogens had to put off analysis of Crimean Congo fever samples collected from the United Arab Emirates, and of hantaviruses from Brazil and Argentina.

Peters manages to inspire a team that routinely risks life and limb to do this work. Colleagues say he has a keen mind for lab and field work, but it's his outspokenness that wins their loyalty. "He tends to break a little crockery and make a little noise if he feels it's necessary," says Russell. His willingness to thumb his nose at the bureaucracy doesn't hurt. Peters is a captain in the Public Health Service now, and officers traditionally wear uniforms at CDC on Wednesdays—which is when you're likely to find C.J. in a loud Hawaiian shirt.

CLEAN RECORD. Peters' own morale is clearly bolstered by his quick-witted, gregarious wife, Susan, who has a PhD in literature and is a librarian at Emory University. Does Susan worry about her husband? "He's not one to take unnecessary risks," she says. None of his staff has ever been infected by a virus they were hunting, Peters interjects.

People who operate in dangerous conditions often develop a taste for black humor, and Peters is no exception. In his office is an inflatable statue of the tortured figure from Edvard Munch's painting, *The Scream*. But Peters is deadly serious about the possible consequences of skimping on disease fighting. "Prioritization is a favorite management buzzword," he says. "What it really means is stuff that isn't going to get done." In this case, the stuff that may not get done is the effort to understand a world full of viruses that can kill people, that are killing people abroad now, and that could suddenly start killing people here someday.

By Joan O'C. Hamilton in Atlanta

L
RANCH

ETERS' SALARY
000
AR 1995
million
ON EBOLA
million**

ZAIRE: *CDC procedures stopped Ebola's spread*

COMPUTERS

THE PRINTER KING INVADES HOME PCs

Can latecomer Hewlett-Packard leapfrog over the field?

Ever since sales of Hewlett-Packard Co.'s personal-computer printers began to soar in the late 1980s, HP Vice-President Richard E. Belluzzo felt the company would one day push off from its roots as a maker of geeky lab equipment and engineering computers to tackle a wide range of consumer-electronics products. Now Belluzzo is making his move: On Aug. 14, the new HP Pavilion line of home PCs will go on sale at nine major retail chains, and they look set to make quite a splash. "HP, Compaq, and Packard Bell will definitely be the top three this Christmas," says Alan C. Bush, president of the Computer City superstore chain. "There's no doubt about it."

No question, Hewlett-Packard, a $25 billion high-tech giant, is quickly gaining on the world's top PC makers. It came from nowhere just a few years ago to take the No. 6 position in PC sales during this year's second quarter, according to market researcher Dataquest Inc. What's more, HP grew 55% while the average for the top five manufacturers was 28%. This despite the fact that the company is barely a presence in the consumer markets.

For now, that is. HP's push into home PCs is just the starting point of a long-term effort aimed at winning the hearts and minds of consumers. The Palo Alto (Calif.) company wants a piece of all sorts of consumer markets, from low-cost peripherals such as cable modems and scanners to sophisticated set-top TV boxes and PC networks for the home. Those fast-growing consumer businesses are critical if HP is to continue enjoying the 20% growth rates it has posted for each of the past two years.

"ISSUE OF SURVIVAL." Not that the company isn't making big gains in many of its traditional markets. It owns a leading 38% share of the $3.5 billion printer market and is holding steady in the more mature calculator business. Sales of its UNIX-based midrange computers are up 60% so far this year. But do the math: Analysts say home PC sales are growing some 25% a year, making it the fastest-growing electronics market out there. Corporate PC sales—largely a replacement market—are growing at about 16%. "We need consumers," says HP Belluzzo, a 42-year-old known as "Rocket Rick" for his rapid ascent to the top of the $15 billion-plus PC and printer businesses. "It's an issue of survival."

HP will take back returns—something IBM, Apple, and others won't do. That should provide early warning of product problems

HP started addressing this issue last October, when it first decided to get in on the home-PC boom. From there it moved fast, creating its Home Products Div. in November and getting products into stores for sales trials by March. The division, while growing, still has fewer than 100 people, but it has big dreams. Webb McKinney, general manager of Home Products, figures he can sell 250,000 home PCs this year—ensuring HP the No. 3 ranking in the market. What's more, Webb believes HP can beat the likes of Packard Bell Electronics Inc. while still charging a 10% premium price. His reasoning: HP will trade on its top-drawer brand name and reputation for good service and reliability. "We have that virtuous kind of name that sells itself," credits McKinney.

Competitors aren't disagreeing. With HP's LaserJet and InkJet printers already staples in many of the same retailers that will carry its PCs, "they definitely have brand name and existing relations with retailers going for them," admits Mal Ransom, Packard Bell's marketing vice-president. Rodney Schroder, Compaq's vice-president for desktop marketing, expects HP to grab a respectable 3% to 5% market share in the U. S. home market in 1995. "HP is probably the only major new entrant this year, and long-term they look like a very strong, viable competitor," he says.

Consumers are rallying to HP as well.

BELLUZZO: *To grow at twice the industry average, "we need consumers"*

"I just respect the HP name," says Alameda (Calif.) retiree Richard Zach, who bought an HP PC during a three-month pilot sales program held with the Circuit City Stores Inc. chain last spring. "HP may be new to the game, but it has been making computer products for a long time."

But HP's good name will only take it so far. HP will have to adapt to the co

ity of the home-PC market. These hines come in far more configura- than printers and have life cycles sured in months rather than years. e retailers have no choice but to ot slim margins on HP's hugely pop- printers, they'll have no such loyal- the Pavilion if other lines are more table or popular with consumers.

ompetitors are certainly winning the ures contest. They are rushing out -bang technologies for their home that HP hasn't matched, such as ard Bell's remote controls and paq's voice-recognition software. IBM eating a whole new organization to l a wide range of feature-rich high- gear for consumers. Says Compaq's ock: "We have two years of experi- [in the consumer market] that e going to leverage to offer astound- eatures. It will be difficult for any entrant to compete with that."

far, though, HP has learned to copy competitors' successes quickly. pting the thrifty ways that have ed Packard Bell become the latest uggernaut, HP says it will buy all of notherboards for its Pentium models Intel Corp. rather than design one s own. The idea: Don't dump money R&D that the chip king has already t. And just as Compaq decided to out manufacturing of this year's end models to Taiwan-based Mitac rnational Corp., HP has hired Hunts- (Ala.)-based SCI Systems Inc. to mble its systems. It has also hired outside firm to handle calls to its service lines.

This formula should give HP a powerful combination of marketing clout and operational efficiency. As a $25 billion company, HP's power to purchase scarce supplies of memory chips, CD-ROM drives, and other parts matches anyone's. And while it will have to share profits with Intel, SCI, and other partners, it won't be weighed down by, say, the cost of Compaq's 28 production lines.

BUILDING LOYALTY. Retailers, meanwhile, are eager for HP's arrival. Having been burned by other PC makers' inventory blunders in recent years—IBM, for one, severely underestimated demand for its PC products last year—"retailers want us to be successful," insists PC Marketing Manager James P. McDonnell. "They wouldn't have cared if IBM had executed well, but it didn't." To ingratiate themselves further, McKinney and team will quickly take back products returned to retailers by disgruntled shoppers—something most PC makers are loath to do. That may cost HP in the short term, says McKinney, but it will build retailer loyalty and provide early warning of product problems.

The care and feeding of retailers is just one of the ways HP is readying itself for a consumer-oriented future. On the drawing board, beyond PCs, are gizmos such as low-priced scanners for home PCs and TV set-top boxes. These will require all the marketing pizzazz that HP can muster. It's working on "digital darkrooms" with partner Eastman Kodak Co., for example, that may someday allow the average shutterbug to take digital pictures with special cameras and then crop, brighten, and finally print them out with high-resolution printers—all in the comfort of the living room. First, though, it has to break deep-seated consumer habits, not to mention the opposition of the entire photo-development industry.

HP's main consumer effort through all this will continue to be printers, its bread and butter. There it's gearing up for even more growth. Rather than keep up with monthly orders as they arrive, this spring HP began stockpiling inventories to meet its aggressive forecasts, just like mass producers of cars, food, and TVs. The plan may be risky—production is running 50% or so higher than last year, sources say—but it's necessary. Even though InkJet printer shipments will near 10 million this year, analysts figure HP has left some 10 points of market share on the table in recent years. Says InkJet Products Group General Manager Antonio M. Perez: "We're not going to lose any more share because of lack of capacity."

That means keeping demand on the rise, which in turn means putting a range of consumer sales tactics in place. While HP used to target some 80% of its advertising dollars to high-tech trade magazines, that same portion will now go into high-profile TV ads. Also, since 1993, HP has doubled the number of chains carrying its printer products, adding giants such as Wal-Mart Stores Inc. And to take the stress off its factories, it is switching from extravagant worldwide product launches to a series of regional introductions. Its new DeskJet 850, for example, started selling first in Europe to take advantage of slow regional summer sales.

"We probably should have made all these changes years ago," admits Perez. "But who knew the PC industry was going to go wacko like it has." A lesson to remember when trying to follow those wacky consumer trends.

By Peter Burrows in Palo Alto, Calif.

Heading for the Home

Hewlett-Packard's Consumer Products

HOME PCs Snazzy new HP Pavilion PCs, ranging in price from $1,500 to $3,200, feature easy-to-use software to mask the complexity of Windows 95 and a software-based HP calculator.

ELECTRONIC PHOTO ALBUMS Working with Kodak, HP envisions a consumer market for PC-based equipment to view and print out photographs—after editing out red eyes, of course.

SCANNERS Now aimed at business customers, HP plans lower-priced versions to make this input device—used for capturing images and documents—a standard addition when shopping for a PC.

SCANJET 3P SCANNER

PRINTERS New low-end DeskJet printers offer color printing for under $300, while the new model 855C comes with software for inserting photos into documents.

DESKJET 855C PRINTER

INTERACTIVE-SERVICES GEAR Plans for set-top TV boxes are in the works. Meanwhile, HP claims to have orders for 1 million speedy modems from cable companies that want to offer PC users superfast Internet surfing via the same wire that delivers cable TV.

KAYAK SET-TOP BOX

COMPUTERS

GLITCHES IN THE SYSTEM AT DEC

PC profits have dried up amid factory and management woes

Digital Equipment Corp. just can't seem to get all of its engines firing together. A year ago, even as the company's mainstay minicomputer business crumbled, it could at least point to soaring personal-computer sales. Now, just as mini sales are perking up, the $1.8 billion PC unit is losing ground.

Some sure signs of trouble: For the quarter ended July 1, PC sales gains slowed to a 20% year-over-year increase, down from 100% in each of the prior three quarters. Market researcher Dataquest Inc. says Digital's rank in the worldwide PC market has dropped a notch since last year, to 12th place, with just a 2.3% share of the market (chart). PC profits dried up in the latest quarter, and despite a drive to add nationwide PC retailers, DEC's sales expansion has trailed rivals. Weak PC results contributed to a 4.3% decline in the company's overall sales for the quarter, to $3.75 billion.

Earnings were reported on Aug. 1, and reaction was swift. On Aug. 3, the unit's president, Bernhard Auer, and its chief financial officer, John Millerick, "resigned to pursue other plans," as a spokeswoman put it. Both Auer and Millerick declined comment.

SHORT-LIVED SUN. The turnabout is painful for a company that seemed finally to be moving away from the sidelines of the computer industry. Digital's high-flying PC business had the company poised to break into the top tier of PC makers. Under Systems Business Unit Vice-President Enrico Pesatori, a former Zenith Data Systems Corp. executive, it successfully reentered the retail PC market it had abandoned in the 1980s. Auer, a former Compaq Computer Corp. executive, took over Pesatori's PC duties last May when Pesatori was promoted.

But Auer's days in the sun were short-lived. Delays dogged a hot new notebook launch, and the unit failed to recruit new retail chains. Meanwhile, the division's profitability slipped as a result of delays in installing a much-needed financial system for tracking sales and inventory. Says an executive close to the company: "The momentum Enrico established did not keep going."

Digital certainly couldn't sustain its biggest shot at a PC breakthrough. Last November, the Hi Note PC, Digital's first notebook line, won raves as the star of the fall COMDEX computer show. But manufacturing delays left the company unable to deliver product until this year. Market researcher WorkGroup Technologies Corp., which last year projected DEC's notebook sales rising to as much as 400,000 units, has now halved its forecast to no more than 200,000.

Digital's retail expansion sagged under Auer as well. He managed to recruit regional chains such as the Northeast's Nobody Beats The Wiz, but he signed up just one nationwide chain—Incredible Universe. Granted, the competition for key retailers is intense. Hewlett-Packard Co. recently add eight nationwide chains to its list, a IBM is focusing attention on retail w its new consumer PC division. "It h been a little tougher than [Digit thought it would be," says Casey Dw kin, president of consultant Perso Technology Research Inc.

Pesatori, back as acting president the PC unit, needs to work his old ma ic. The first step: Get DEC in on the ticipated fall upsurge in consumer p chases. That's when PC makers do so 40% of their business. He must quic sign up big consumer chains such Computer City and Sears, Roebuck Co. DEC's notebooks need a makeov too. The 486 line looks dowdy alongs Pentium notebooks from competitc DEC is hoping to reinvigorate its Note line this fall with Pentium chip

Pesatori's best chance for quick sults is Digital's PC-server business. company recently signed an allia with software giant Microsoft Corp. t makes it the preferred service provi for Windows NT, a popular operat system for PC networks. If he can qu ly boost sales of high-margin serv Pesatori could return the PC divisior the black in short order. Analysts the unit's stall need not turn int crash—if Pesatori can place Digit onetime star back in a leading role.

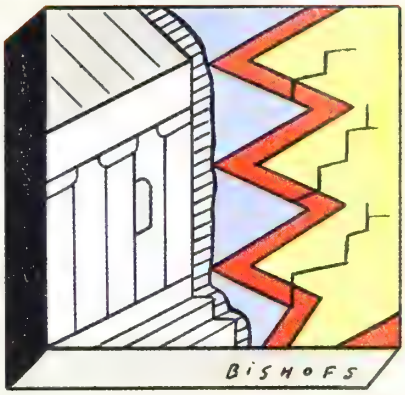
By Gary McWilliams in Houst with Geoffrey Smith in Boston

EX-PC PRESIDENT AUER

DEC's first line of notebooks won raves last fall, but production delays stalled shipment until this year. That may cut sales in half–leaving lots of inventory

ED BY OTIS PORT

MB PROTECTION FOR BUILDINGS



OKLAHOMA CITY BOMBING LAST APRIL AND Unabomber's ongoing antitechnology cam- gn have increased fears about terrorists. v, Firexx Corp. in Arlington, Va., has devel- d a security blanket that can be thrown ınd a building to shield both the structure its occupants from serious injury. 'irexx Executive Vice-President Charles S. wford says that a 12-inch-thick layer of exx Fortification padding should prevent ıctural damage from a bombing such as the in Oklahoma City, with the equivalent of 0 pounds of TNT detonating only 10 feet or rom the Alfred P. Murrah Federal Building. That estimate is based on tests last vember by Battelle Memorial Institute labs, which showed that Firexx padding ks up more than 99% of an explosion's shock wave. James J. Reuther, a principal re- rch scientist at Battelle, calls the test results "remarkable."

'he padding's core is made from a thin sheet of metal foil precisely cut so that when tched it forms a mesh engineered specifically to dampen a bomb blast. As a shock e penetrates the foil mesh, the metal first deflects the energy, then collapses, absorb- the blast like a series of leaf springs. Firexx says the material can be wrapped ınd support columns or hidden beneath fascia panels on walls and perimeter fences.

INNOVATIONS

■ Painful injections for diabetics and other patients could become a thing of the past. Researchers at Massachusetts Institute of Technology have developed a way to make drugs penetrate the skin with pulses of low-frequency ultrasound. The technique has already been used to administer a variety of drugs, including insulin.

■ Cellular phones and handheld computers are so prevalent that some companies worry about possible side effects of electromagnetic interference (EMI). But University of Buffalo researchers have developed a new and improved EMI blocker: skinny carbon filaments, one micron in diameter, that are plated with nickel and embedded in plastic.

■ Diagnosing what ails sick buildings just took a new twist. Environmental scientists at Georgia Institute of Technology have discovered that the volatile organic compounds (VOCs) that often foul indoor air don't always stem from the usual list of suspects, such as foam insulation and synthetic carpet fibers. Molds and fungi growing inside walls or air-conditioning ducts also produce the same VOC gases—sometimes enough to affect indoor air quality.

S WASTE CAN AN UP AL-ACID CREEK

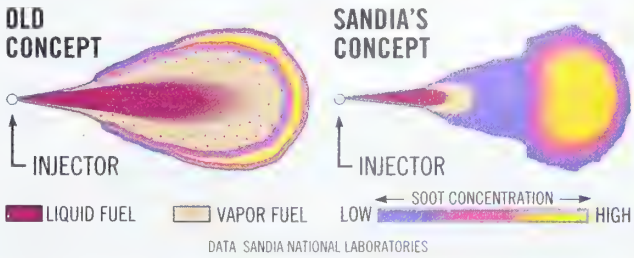
AIN AND GROUNDWATER through 15,000 acres of ted coal mines in south- rn Ohio, pyrite in the s and tailing piles oxi- into an acid brew that into Monday Creek. On day, the stream's pH approaches that of bat- acid. Now, a patchwork vernment agencies and environmental groups wants to clean up Monday Creek—with the help of industrial waste from a local power company.

The idea isn't far-fetched. To scrub sulfur dioxide from smokestack gases, power plants use calcium carbonate, which gets converted to highly alkaline calcium sulfate and sulfite. This by-product of flue gas desulfurization (FGD) has previously been used to neutralize acid pollution, but not on the scale planned for Monday Creek.

Ohio University's Mary Stoertz, an assistant professor of geology, says the cleanup coalition wants to mix FGD into the mine tailings, known as gob piles, that blight the region's landscape. They'll also use FGD to line a network of culverts and dikes designed to keep rainwater away from pyrite concentrations. American Electric Power Co. plans to donate the FGD, hauling it from its power plant in nearby Conesville.

ESEL ENGINES THAT SPEW LESS SOOT?

RING BY LASER THROUGH uartz window in the pis- of a diesel engine, re- rchers at Sandia Nation- Laboratories have gotten etter look at how die- burn fuel. That could d to cleaner engines. ohn E. Dec, Sandia's ıcipal investigator, says air vaporizes diesel fuel r it has traveled just inch from the injector. t's about half the distance previously supposed. Knowing this should allow engineers more latitude in designing the sombrero-shaped piston tops. Dec also found that large soot particles accumulate mainly in the head vortex (yellow in right-hand illustration). Breaking up the vortex could circulate soot particles to hotter regions, where they would burn up. Another finding: Lots of soot can also come from fuel that dribbles out of the injector when it shuts off too slowly.

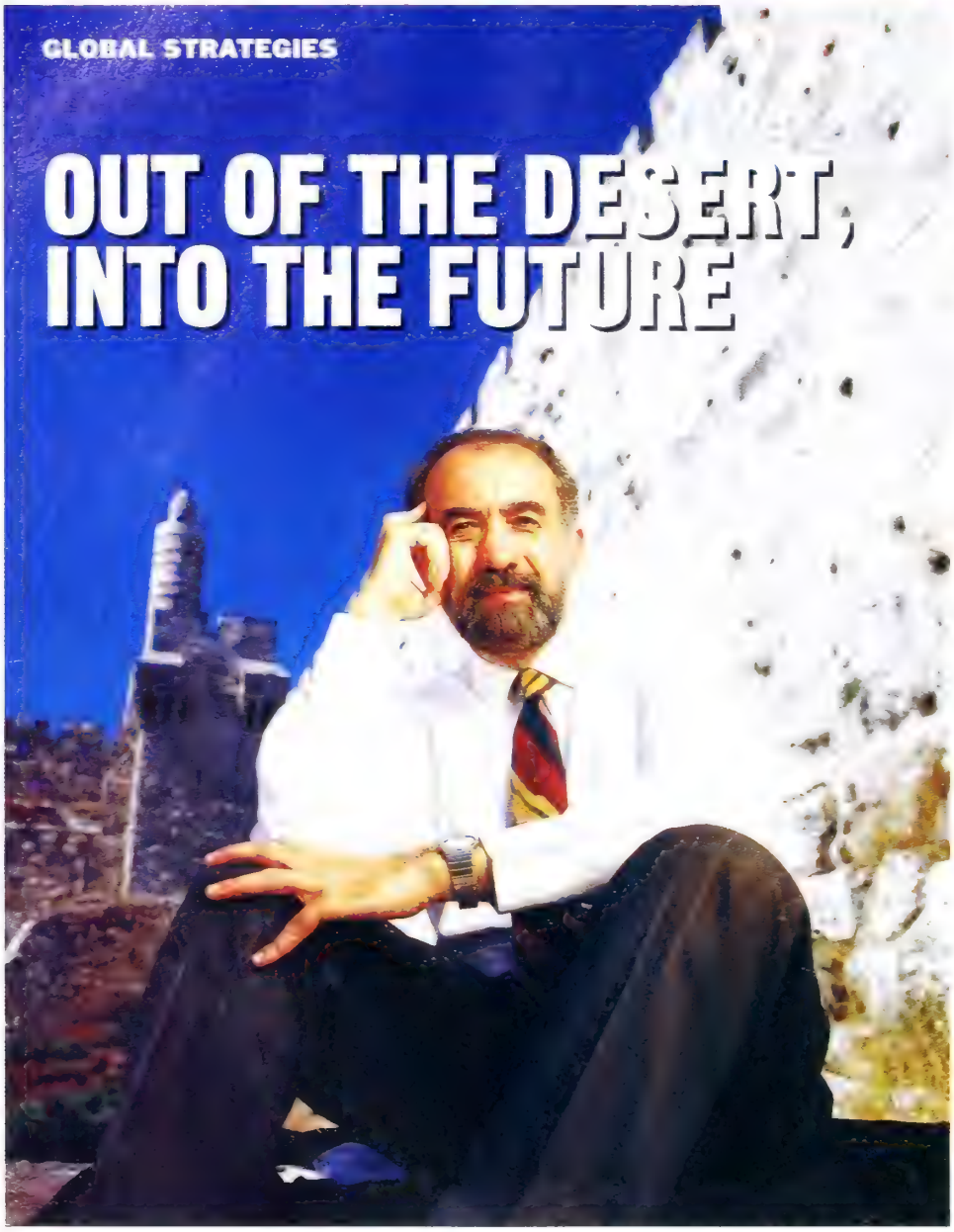


DATA SANDIA NATIONAL LABORATORIES

Dec's work, at Sandia's Livermore (Calif.) branch, is partly supported by diesel-engine maker Cummins Engine Co. Next, Dec hopes to figure out how diesel engines create nitrogen oxide air pollutants.

GLOBAL STRATEGIES

OUT OF THE DESERT, INTO THE FUTURE



THE HOLY LAND: *"An atomic reactor of ideas." Landa say*

A high-tech boom in Israel is pushing the country's economic growth to around 6% a year

Benzion Landa of Indigo is the very image of a Silicon Valley success story. The 49-year-old native of Edmonton, Alberta — "Benny," to employees—has cultivated deep-pocketed partners for Indigo's digital-printing technology, from AT&T to Japan's Toppan Printing Co. Group. When he throws a press conference, it's in the plush Rainbow Room atop New York's Rockefeller Center. When he needs business advice, he calls his friend George Soros, an early backer. And to escape the August heat this year, Landa is taking his family white-water rafting on the Colorado River. He can afford to raft in high style: His family's 70% stake in Indigo, which went public on NASDAQ last year, shot past $2 billion this year before sliding back to a mere $1.8 billion on a recent earnings warning from the company.

Yet Landa has ridden to fame and fortune not in Cupertino or San Jose but in the quiet Israeli town of Rehovot, a bedroom community half an hour's drive from Tel Aviv—and 7,400 miles away from Silicon Valley. And he is not alone: Thousands of Israeli entrepreneurs are making themselves felt on technology's cutting edges, from vanced chip design and data-r working systems to medical aging and encryp communications. Says Lan "We have become an atomic re tor of ideas, technology, and trepreneurship."

The ideas and technology t Landa brags of have thrived Israel for decades: What's n is the entrepreneurship. doubt, progress toward peace the Middle East has helped rael's high-tech boom. So h 600,000 immigrants from the mer Soviet Union, many of th highly trained in technical fie Most important, though, has b a revolution in Israel's econo and business culture, from soc istic and inward-looking to en preneurial and international. I da and others like him are learning how to combine ho grown Israeli technolog strengths—many honed inside cret military labs—with U style financing and marketing

MARKET FROTH. There's no do that a casino-like atmosphere rounds some Israeli companie and that at times, speculatio their stocks outruns reality. W Landa's Indigo, for exam shares ran up from $15 in Ja ary to over $60 this month. T retreated to a more realistic after the company announ Aug. 8 that it didn't turn p itable in the second quarter was earlier projected.

Still, market froth doesn't secure the real progress of Isr companies in penetrating global m kets. Using Motorola Inc.'s latest Li cellular phone? The core circuitry developed at Motorola's R&D facili in Tel Aviv—while the simulation s ware of an Israeli company, Emul enabled Motorola to design the phon record time. Key parts of Intel Co 486 and Pentium chips were designe Israel. And if you start using trif contact lenses in the near future, it be thanks to the success of an Isr startup, Holo-Or.

Israel obviously won't be a wo beater in every sector of high t With its population of only 5 millio can't hope to challenge the comb research and manufacturing stren of a United States or even a South

What's more, Israel is rapidly los-
he cost-of-labor advantage that has
ed draw investors. Still, military
rch has given Israel a clear lead in
parts of telecommunications and
are technology (table). And Israel
carved out other niches that owe
ng at all to the military. For in-
e, Indigo's Landa claims that his
other digital-imaging companies
dominate the world printing in-
y and move it from Germany to
l."

e high-tech boom is boosting the
e Israeli economy, helping cut the
ss rate to under 7%, from 11% two
ago. Israel's 1,800 high-tech outfits,
clustered in neat industrial parks
ng out from top research institu-
like Haifa's Technion and the Weiz-
Institute of Science near Tel Aviv,
ing up exports this year of about
llion, nearly double the 1990 level.
's helping to push Israeli economic
th to around 6% a year, rivaling
of Southeast Asia.

E RUNNING. Today, Israel is second
to Canada in the number of its
panies quoted on U.S. exchanges,
62. Of those, fully 57 are high-
and initial public offerings are
ing at around one a month. In the
big buyout of an Israeli high-tech
p, Netherlands-based Madge Net-
s agreed in June to pony up $300
on to buy Lannet Data Communi-
ns, a leading networking firm.
in's Cable & Wireless PLC recent-
ought a strategic 10% stake in Be-
Israel's telecommunications monop-
Such deals are a sign of the new
ness of the Israeli economy. "Israe-
npanies never used to be for sale,"
Ron Lubash, managing director
ehman Brothers Inc.'s Tel Aviv op-
ons. "Now it's happening across
board."

ven the Japanese are jumping in.
el is a treasure house of technolo-
says Takuro Isoda, chairman of
on Investment & Finance Co.
more than $800 million under
agement, Isoda's NIF has recently
n the plunge with a couple of Is-
high-tech investments, including
ke in Haifa-based DSP Communica-
, a maker of digital signal-process-
hips.

e trick is to land such deals with-
surrendering too much intellectual
erty. Indigo's Landa, a role model
israeli entrepreneurs, has assem-
a slew of powerful partners—af-
building a tall fence of patents
nd his technology for short runs of
printing, which allows for custom-
on of printed products such as bro-
es, menus, and labels. Says Landa:
hout technology you can defend, a

An economic revolution against socialism freed business instincts

Hitachi or a Kodak will eat your lunch."

The success of nimble companies like Indigo stands in contrast to the experience of Israel's vaunted defense contractors, hit by the downturn in defense spending. Typical was a failed attempt by Israel Aircraft Industries Ltd., maker of the Kfir fighter, to upgrade East Bloc passenger planes.

Military technology is reaching the civilian market all right, but it's mainly through people leaving defense manufacturers and elite units of the IDF to form companies, bringing with them top technology and entrepreneurial zeal. For instance, Rafael's pioneering work in spread-spectrum wireless broadcasting technology, allowing Israeli army units to avoid detection while communicating, is being commercialized for cellular phone calls by Geotek Communications, which has offices in Montvale, N.J., but does all its R&D in Israel.

HIGH-SPEED RACE. The Israeli government, while more market-oriented than in years past, prods along the nation's technology sector to a degree that's hardly imaginable in the U.S. The office of Chief Scientist Yehoshua Gleitman is doling out half a billion dollars this year to high-tech companies, double the amount of just two years ago. The Chief Scientist's Office also targets technologies, such as superconductivity and high-speed gallium arsenide chips.

To be sure, Israel is gradually losing one of its early advantages: cost of labor. In the 1980s, the pay gap between Israel and Silicon Valley was so great—around 40% for top programmers—that big U.S. investors like Intel, IBM, and Motorola quickly recouped their investments. Now, graduates of Haifa's Technion are snapped up at $45,000 a year, not much lower than counterparts in the U.S. The average pay differential has narrowed to around 20%—and many Israeli engineers can command Silicon Valley rates.

Still, Dov Frohman, general manager of Intel's huge Israeli operations, thinks labor costs are less important than the flexibility and speed of Israeli companies. What's more, "for the next five or ten years, Israel still has a tremendous availability of people coming out of the military and wanting to make it in high tech," says Efi Arazi, an Israeli who founded Scitex and went on to start San Mateo (Calif.)-based Electronics For Imaging Inc. With its law firms, banks, and venture-capital groups underpinning its entrepreneurs, says Arazi, "Israel now has a critical mass in high technology that is far ahead of anything in Europe."

Israel amazed the world when hard-working Jewish settlers made the desert bloom with orange groves. Now, a new generation of Israelis is making the desert bloom again by building a new Silicon Valley—in a country that has all the silicon you could ever want.

By John Rossant in Rehovot, Israel, with Neal Sandler in Jerusalem

Israel's Hottest Civilian Technologies

High-tech operations in Israel range from military industries to Silicon Valley-style startups.

TELECOMMUNICATIONS Israel is a world leader in wireless technology, thanks to systems developed for military aircraft and guided missiles. Startups include Nexus Telecommunications Systems (two-way paging), Geotek Communications (cellular), and Gilat Satellite Networks (small satellite dishes).

SEMICONDUCTORS Motorola, Intel, National Semiconductor, and others founded Israel's chip industry. Now, Israel has its own chip-makers—led by contract-manufacturer Tower Semiconductor, a National Semi spin-off.

DATA NETWORKING GEAR Israel's top player, Lannet Data Communications, is being snapped up by Netherlands-based Madge Networks Inc. for $300 million. Others: RAD Group, LanOptics.

DIGITAL PRINTING Scitex, which automated pre-press operations, was an early success. Indigo, a specialist in short-run color printing, is the latest star in this unlikely Israeli specialty.

ANTIVIRUS AND ANTIPIRACY SOFTWARE Military research aimed at secure communications helps make Israel a world leader in this hot field. Top names include BRM, Checkpoint Software Technologies, Aladdin Knowledge Systems, and Microguard.

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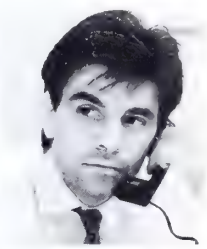

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EDITED BY AMY DUNKIN

PART-TIME B-SCHOOL IS A FULL-TIME GRIND

For two straight years, Win Billingsley arose before the sun. A vice-president at AT&T Global Information Solutions, he routinely dragged himself out of bed at 4 a.m. and cracked open a mind-numbing statistics or economics textbook for his part-time MBA studies—before leaving for work. Billingsley finally graduated from Northwestern University's J. L. Kellogg School of Management in Evanston, Ill., last year. While the knowledge he gained has served him well, earning his degree was at times an ordeal. "If you don't have the stamina, you will never get through a part-time program while working full-time," says Billingsley.

Juggling family obligations, a demanding job, and study for an advanced degree has become an obsession for many in today's competitive workplace. Indeed, part-time enrollment in MBA programs is at record levels. In 1991, 91,086 people enrolled part-time. This past academic year, over 118,000 students—about 64% of all people seeking MBAs—studied in part-time graduate programs, according to the American Assembly of Collegiate Schools of Business (AACSB).

PROMOTION? Unlike Billingsley, who can boast an MBA from a top-notch program, many students attend part-time courses at local schools that lack national and, in some cases, even regional reputations. The payback for the degree is often uncertain. Yet if nothing else, record enrollments show that the downsides of a part-time MBA program continue to be overshadowed by students' desire to learn more about business, gain another credential on a résumé, and facilitate job promotion—though the latter reward is hardly guaranteed.

EDUCATION

Of the 420 respondents to a recent AACSB survey, 88% (371 schools) offer MBA courses to part-time students, luring weary but ambitious managers and employees to mostly weeknight classes. Part-time study can be a bargain. Students at Wayne State University in Detroit, which boasts one of the largest part-time MBA enrollments in the U. S., can get the degree for as little as $5,000—if they have already accumulated enough preliminary cr its to waive some of t basic classes. Gener ly, the price tag fo part-time program about $15,000—l than half the cost most full-time MB But at the more pr tigious schools, such Northwestern, tuition both part-time and full-ti programs is about the sam hefty $40,000.

Time is often m critical an is than cost, si many part-t ers rece some tuit reimbursem from their e ployer. "Sch basically uses all of your f time," says Rich Westenberger, a s ior financial analys Kraft Foods, wh enrolled in the Uni sity of Chicago's e ning MBA program. studies whenever can, plus spending 1 25 hours per week in classroom, doing homew and reading assignme and participating in te projects—all crucial asp of part-time regimens.

This level of commitm makes many part-time dents try to end the ang as quickly as possible, ofte two or three years, by loa up on courses. Others a the crash-and-burn appr by extending the time t long as five years. But e students taking only course per quarter say p time programs are chall ing. "The euphoria of b accepted into a top-flight l ness school began to die

the first year, and I be-
ondering if it was really
it," recalls David
h, a vice-president at
Barney and a 1991
ate of Kellogg's part-
program.

CONTACTS. Like many
ates, Hirsch's degree
to get him either a
promotion or an imme-
pay raise. Yet Hirsch,
completed the program
e years, wasn't only
sted in moving up the
r. He says he battled
gh the 20-credit program
rch of less-tangible re-
s. "The payoff had more
with indirect benefits,
ally having more aware-
of management issues
better chances to net-
" says Hirsch, who adds
the program exposed
to regional and even
national contacts.

most cases, part-timers
pretty much the same
ess basics that full-time
students get. Indeed, many program directors claim the core curriculums are identical for part-time and full-time tracks. At Northwestern, the same faculty members teach the same courses in the full-time and part-time formats. But Kellogg's practice is hardly the norm when it comes to part-time program faculty.

Consider the Keller Graduate School of Management in Oakbrook Terrace, Ill., which houses the sixth-largest part-time program by enrollment (2,069 students). Nontenured or visiting professors, known as adjuncts, teach 95% of the part-time classes. Five other programs that rank among the 10 largest by enrollment have adjuncts teaching 60% or more of the curriculum. Even at New York University's highly acclaimed part-time program, adjuncts are responsible for 36% of the courses.

It's not only the teachers who differ. Part-time students tend to be older—the average age is a tad over 30. Also, they're often married with children and have more work experience than full-time students. The vast majority—about 90%—are employed full-time and want immediate results in the workplace, a desire that can have a strong influence on an instructor's teaching methods. "There is a greater demand by part-time students for how they can use the information collected in a given class in the workplace the next day," explains Doug Andrews, director of the evening MBA program at the University of Southern California. "As a result, faculty members are more conscious of making applications to the workplace more obvious."

The most persistent difference between the two groups, according to most students and deans, comes in their participation in extracurricular activities and social interaction. "I had no time for social life outside the classroom, and I barely met my classmates," says Mary Farrell, a senior vice-president at PaineWebber and a 1976 graduate of the part-time program at NYU's Leonard N. Stern School of Business.

Time constraints can often hinder part-time students' ability to engage in extracurricular activities, which can put a crimp on making friends and networking. "The only thing part-time students are doing in our program is going to school," says Robert Nachtmann, director of Master's programs at the University of Pittsburgh's Joseph M. Katz Graduate School of Business. "It is not fully enriching because they have the mindset of commuters."

Another key drawback: Few schools allow part-time students, who usually receive tuition reimbursement of 10% to 100% from their employers, to use the institutions' placement operations to find new jobs. There are some exceptions, including the University of Chicago, but most schools believe they should not help employees leave companies that are footing at least part of the bill for their education.

Because of his status as a part-time student, Jonathan Wishnick was kept from bidding for on-campus recruiting interviews at the University of Chicago—even though he received no tuition reimbursement. But that did not change his overall view of the B-school experience. "Other than the recruiting issue, I was very pleased with the University of Chicago," says Wishnick, who claims that his MBA has given him the tools necessary to start his own business. "The opportunities for education are exactly the same in the part-time and full-time programs." Indeed, many students say they would go through it all again—even if they do have to rise regularly before the sun. *Elias Levenson*

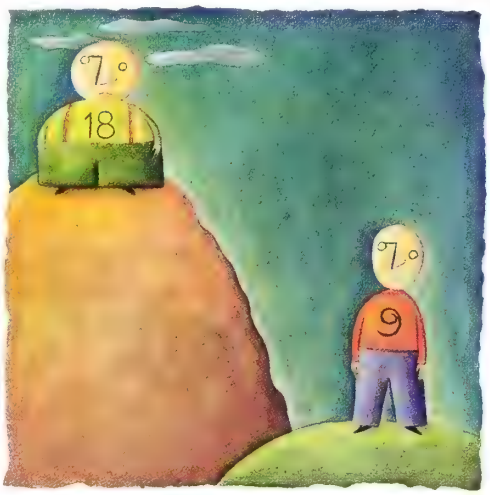
The 10-Largest Part-Time Programs

L	PART-TIME ENROLLMENT	TOTAL TUITION	ACCEPTANCE RATE	GRADUATION RATE	AVG. TIME TO GET MBA	ADJUNCT TEACHING
LEY COLLEGE nam, Mass.	1,880	$24,000*	70%	NA	3 years	17%
UNIVERSITY evue, Wash.	2,579	11,030	100**	31	4.5	95
LEIGH DICKINSON ERSITY eck, N. J.	1,828	17,808	61	85	3.5	45
S HOPKINS ERSITY more, Md.	2,850	15,000	75	80	3.25	85
ER GRADUATE OOL OF MANAGEMENT rook Terrace, Ill.	2,069	14,400	76	36	3.5	95
YORK UNIVERSITY York, N. Y.	2,597	47,500	40	75	4	36
ERSITY OF ST. THOMAS eapolis, Minn.	2,802	14,000	60	70	4.5	60
SH COLLEGE Mich.	1,838	9,000	90	80	4	60
E STATE UNIVERSITY oit, Mich.	1,745	7,000	63	70	3.5	23
STER UNIVERSITY ouis, Mo.	4,152	13,400	98	60	3.25	81

stimate (costs may vary) ** With any 4-year undergraduate degree NA= Not available DATA: BUSINESS WEEK

A LOW-RATE FIX FOR THE CREDIT-CARD JUNKIE

You won a handsome discount on a new General Motors car, chalked up enough frequent-flier points to claim a free plane ticket, and raked in gas rebates galore. But after enjoying the rewards of co-branded credit cards, you have to pay off those big balances that earned you the freebies in the first place.



Problem is, such cards charge among the highest interest rates on revolving debt—18% on average. Savvy consumers can dodge steep rates by transferring balances to cards that offer low introductory rates, but many people "are tired of playing the teaser game," says Beverly Wells, president of Wachovia Bank Card Services. Such come-ons boast rates of around 9% for the first six months, at which point the regular 18%—or more—kicks in.

SMART MONEY

GOOD DEAL. A better option might be one of the permanent low-rate cards being offered by a growing number of issuers. Although such cards usually carry an annual fee, they can be a good deal for credit junkies who want to slash interest costs and pay down their debt faster.

One of the newest products is the Prime for Life card from Atlanta-based Wachovia. Its annual percentage rate is always the same as the prime rate, currently 8.75%. Despite a hefty annual fee of $88, Wells claims that "this is a very attractive card for consumers with significant revolving balances" of at least $1,000 a month. For those with less debt, Wachovia offers an alternative, for $28 a year, with a rate of prime plus 3.9%.

While low-rate cards have been around for some time, they were marketed primarily by small regional banks. "Now, you can actually get a low-rate card from a bank you've heard of," says Pat Hudson, president of Porges & Hudson, San Francisco-based credit-card consultants. PNC Bank, in Pittsburgh, just launched its Prime Value card, available nationwide at a permanent rate of prime plus 3.75%.

That's not to say you shouldn't look around for local deals. Cincinnati-based Star Banc recently issued Star Prime, with a rate equal to the prime and an annual fee of $45 for the standard, $55 for the gold. It is available only in Ohio and eight neighboring states.

The new low-rate plastic comes with higher credit limits than earlier offerings. Most issuers grant opening credit lines of $3,500 on a standard card, compared with $1,500 a few years ago. And, "you no longer need an exceptionally low debt level to obtain a low-rate card," says Keith Coughey, vice-president of PNC Bank Card Services.

In choosing a card, "look for the lowest interest rate from the biggest bank," says Robert McKinley, president of RAM Research Group, which publishes *CardTrak*, a monthly guide to the best deals. With a big bank, you have a better chance of eligibility and some assurance the issuer can sustain long-term low pricing. You can order *CardTrak*, at $5 an issue, by calling 800 344-7714.

You also want to know on which index issuers ba rates. A growing numb such as First USA Bank a Banc One, use a Treasury-index or the London Int bank Offered Rate (LIBO Because it is hard to foll how these fluctuate, cardho ers can easily lose track when their rate changes, how much interest they paying.

INTEREST TRAP. Also ch how interest is calculat Most banks base the rate revolving debt on the av age daily balance (ADB) the month. Avoid cards t employ two-cycle billing. der this method, any unp interest from the last mon charges is added to the in est due on the ADB over new period. First USA's l cost cards and Dean Witt Discover card both work the two-cycle system.

If you switch to a low-r card, don't splurge just cause you are paying l interest. RAM Resear McKinley suggests that volvers keep their card c under control by paying a minimum of 5% to 10% their balance every mo In the long run, with s discipline, you could s enough in interest charge pay for the plane tickets other goodies you were ceiving on the more exp sive cards. *Silvia San*

Cut-Rate Credit Cards

CARD/ISSUER	ANNUAL PERCENTAGE RATE	ANNUAL FEE	TERMS
PRIME FOR LIFE Wachovia Bank, 800 842-3262	8.75% (Prime rate)	$88	Designed for consumers who carry at least a $1,000 balance; $98 for gold ca
AFBA INDUSTRIAL BANK 800 776-2265	11.9%	None	8.5% introductory rate valid till Jan. 1, 1996; hard to qualify for
USAA FEDERAL SAVINGS BANK 800 922-9092	12.67%	None	Interest rate pegged to Treasury-bill index
PRIME VALUE PNC Bank, 800 PNC-9901	12.50% (Prime+3.75%)	$18	Six-month teaser rate of 8.9%; $28 for gold card
FIRST YEAR PRIME Wachovia Bank, 800 842-3262	12.65% (Prime+ 3.9%)	$18	First-year rate is 8.75%, available nationally
CONSUMERS' EDGE Bank of New York, 800 235-3343	14.65% (Prime+5.9%)	None	Standard card has no grace period so interest charges accrue from Day On
CONSUMERS' BEST Capital One, 800 952-3388	14.9%	$29	6.9% fixed rate until April '96; 14.9% fixed thereafter

DATA: RAM RESEARCH GROUP

NEW AGE LOURDES: *Visions and views at the Inca city*

CHU PICCHU: MAGICAL MYSTERY TOUR

ote and mystical, 'lost" Inca city of hu Picchu has a spiritual mag- decades. Shirley Mac- claims to have had a of her past lives there, men have wept at the nd visitors they've e rocks vibrate and the arge them with celes- ergy.

il about 16 months ago, tourists avoided the scared by violence from Shining Path guerril- day, with the guerrillas y eliminated, legions of rippers and overnight s are back.

a drizzly May morning, nall orange excursion heading for the peaks ull of mostly Austra- French, Germans, and Africans. (The U.S. Dept. still has a travel ry about terrorism in Peru, so Americans have been slower to return.) The three-hour trip took us from the thin air of Cuzco, itself an ancient city at 11,000 feet, through Andean valley outposts with such names as Ollantaytambo and Chilea, to the jungle hamlet of Aguas Calientes. From there, it's a half-hour bus ride up a gravel switchback road to the 8,000-foot summit.

TRAVEL

Machu Picchu, meaning manly peak, with its cousin Huyna Picchu in the background, matches its postcard image. With flawless beveled stone walls, miniature aqueducts for irrigating maize and other crops, and a sun temple that collects the first rays of summer solstice at exactly the same spot each year, it is an engineering marvel. A $10 walking tour provides most of the historical highlights. Mainly inhabited by priests, women, and children, the city is widely believed to have been a shrine venerating the Inca sun gods, rather than a refuge from Spanish conquistadors.

Today, Machu Picchu is also a New Age Lourdes for spiritualists and those seeking extraterrestrial contact. No sooner were we through the main gate than Donna, a young Australian, spread-eagled herself on one of the sun rocks, seeking "revitalization." Others rubbed the chiseled boulders or stared trancelike through symmetrical stone windows, hoping for visions. Loud guides, flashbulbs, lunch, and grazing llamas left them undisturbed. By mid-afternoon, as day-trippers headed for the train, leaving overnight visitors behind, the mood changed. A guide struck up the melancholy *El Condor Pasa* on a flute, cloud shadows and light played across the rocks, and the monument's psychic pull became apparent.

At sunrise the next morning, we tiptoed across the wet grass like intruders in a cathedral. As the sun burned off sheets of white fog below, a montage of clouds, birds, and orchids emerged amid the sheltering peaks and symmetrical stone huts. It's with dawn, sunset, or on nights when the moon gives the peaks a rose hue that Machu Picchu best stirs visions, local guides say. Imaginative visitors, of course, could say such experiences happen in many exotic places. But that misses the point, suggests John Stern, a touring Johannesburg doctor: "People know we can reach the moon, but they feel lost about what life means for them, so they turn to an ancient culture for answers."

THREE-DAY HIKE. Besides soul-seeking and archaeology, the region offers rain forest tours, bird-watching, and numerous short hikes. A steep ascent of Huyna Picchu takes an hour, as does a walk from the ruins to the Sun Gate, a monument above the city. Adventurous backpackers can even hike to Machu Picchu on the Inca trail, a stunning three-day journey.

May through November, the southern hemisphere's winter, is the best time to visit. Aeroperú has flights from Lima to Cuzco daily, though none convenient enough to make the 6:30 a.m. train. To experience a sunrise and Machu Picchu's many moods, a tour package—about $460—with one night in Machu Picchu and two in Cuzco is usually easiest, though you could wing it for less if you don't mind scrambling for hotel rooms. Even tourists with confirmed reservations at the Turista Hotel on the peak are often bumped to the Machu Picchu Pueblo Hotel in Aguas Calientes, which is nicer. But then they have to scramble to get a bus to the peak in time for sunrise.

I didn't have a spiritual awakening at Machu Picchu, but many clutching tourist kitsch on the train back to Cuzco claimed they did. As Horst, my friendly German seatmate, observed: "You see a famous place, and if you have a vision, you are a double winner." *Bob Dowling*

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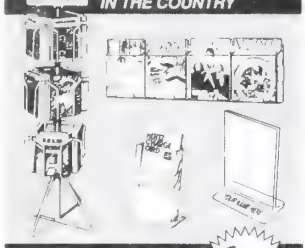

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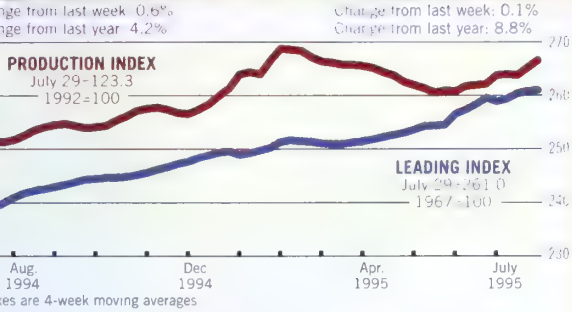
DUCTION AND LEADING INDEXES



es are 4-week moving averages

oduction index increased during the week ended July 29. Seasonally d output of autos, trucks, and electric power all rose. Before tion of the four-week moving average, the index jumped to 126.1, from For the month of July, the index rose to 123.3, from 121.9 in June. **ding index** also rose in the latest week, but the unaveraged index fell .4, from 261.3. In July, the index stood at 261, up from June's of 259.2.

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (8/5) thous. of net tons	1,906	1,895#	6.4
AUTOS (8/5) units	111,581	111,909r#	8.9
TRUCKS (8/5) units	101,272	107,569r#	–10.6
ELECTRIC POWER (8/5) millions of kilowatt-hrs.	77,113	77,971#	13.3
CRUDE-OIL REFINING (8/5) thous. of bbl./day	14,460	14,270#	0.4
COAL (7/29) thous. of net tons	19,760#	19,997	–0.8
PAPERBOARD (7/29) thous. of tons	903.6#	909.2	4.3
PAPER (7/29) thous. of tons	852.0#	825.0r	5.6
LUMBER (7/29) millions of ft.	465.0#	437.3	–7.8
RAIL FREIGHT (7/29) billions of ton-miles	24.5#	24.0	2.5

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Forest & Paper Association, WWPA[1], SFPA[2], Association of American Railroads

DING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
K PRICES (8/4) S&P 500	559.64	561.50	21.7
DRATE BOND YIELD, Aaa (8/4)	7.57%	7.56%	–4.9
TRIAL MATERIALS PRICES (8/4)	113.7	113.5	NA*
ESS FAILURES (7/28)	NA	NA	NA
ESTATE LOANS (7/26) billions	$491.1	$491.6	12.5
Y SUPPLY, M2 (7/24) billions	$3,678.6	$3,669.2r	2.7
L CLAIMS, UNEMPLOYMENT (7/22) thous.	372	416	13.1

s: Center for International Business Cycle Research (CIBCR), Standard & Moody's, *Journal of Commerce* (index: 1990=100), Dun & Bradstreet (failures companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on s failures and real estate loans. *Historical data available from CIBCR

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (8/9) $/troy oz.	384.400	382.650	1.7
STEEL SCRAP (8/8) #1 heavy, $/ton	142.50	140.50	4.4
COPPER (8/4) ¢/lb.	141.0	137.4	26.2
ALUMINUM (8/4) ¢/lb.	87.0	88.5	24.3
COTTON (8/4) strict low middling 1-1/16 in., ¢/lb	83.43	88.33	17.0
OIL (8/8) $/bbl.	17.88	17.58	–5.6

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX

REST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
AL FUNDS (8/8)	5.70%	5.55%	4.26%
ERCIAL PAPER (8/8) 3-month	5.80	5.80	4.82
FICATES OF DEPOSIT (8/9) 3-month	5.75	5.75	4.79
MORTGAGE (8/4) 30-year	8.04	8.06	8.57
TABLE MORTGAGE (8/4) one-year	5.90	5.94	5.54
(8/9)	8.75	8.75	7.25

s: Federal Reserve, HSH Associates, Reuters Holdings PLC

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (8/9)	91.57	90.75	99.70
GERMAN MARK (8/9)	1.41	1.40	1.55
BRITISH POUND (8/9)	1.60	1.60	1.55
FRENCH FRANC (8/9)	4.87	4.82	5.33
ITALIAN LIRA (8/9)	1588.1	1589.5	1587.5
CANADIAN DOLLAR (8/9)	1.36	1.36	1.38
MEXICAN PESO (8/9)[3]	6.145	6.140	3.397

Sources: Major New York banks. Currencies expressed in units per U.S dollar, except for British pound in dollars

ata in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense nt. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

ESS INVENTORIES

y, Aug. 14, 10 a.m. ▶ Inventories manufacturers, wholesalers, and s likely increased by 0.3% in June, ss than the 0.4% gain in May. the median forecast of economists d by MMS International, one of the v-Hill Cos. Factories have already d a 0.2% rise in their stock levels, olesale inventories were up 0.5%. ss sales likely rose a strong 0.6% in n top of a 0.5% increase in May.

TRIAL PRODUCTION

y, Aug. 15, 9:15 a.m. ▶ Output at ion's factories, mines, and utilities ell a small 0.1% in July. That's suggested by the drops in factory jobs and workweek. However, the record heat wave across the Midwest and East probably caused utility output to jump in July. Industrial output rose a small 0.1% in June, after three consecutive declines. Capacity utilization rates likely dipped to 83.2% last month, from 83.5% in June. Operating rates hit an expansion high of 85.5% in December.

HOUSING STARTS

Wednesday, Aug. 16, 8:30 a.m. ▶ Housing starts probably rebounded in July, to an annual rate of 1.3 million. Starts dropped 0.1% in June, to a 1.26 million pace, but single-family starts alone increased 3.9%. A pickup in housing demand, thanks to a drop in mortgage rates, helped to clear out an overhang of unsold homes and prompted builders to start construction.

INTERNATIONAL TRADE

Thursday, Aug. 17, 8:30 a.m. ▶ The MMS survey forecasts that the trade deficit for goods and services narrowed to about $10.5 billion in June, from a very high $11.4 billion in both April and May. The trade deficit was responsible for cutting one-half of a percentage point from economic growth in the second quarter. Exports, which rose by 1.3% in May, are forecast to rise again in June, while imports, up 1.1%, are expected to be unchanged.

Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A

A.C. Nielsen 27
Adobe Systems 30
Aeroperu 85
Agfa-Gevaert 68
AgResource 31
Agri Analysis 31
Airbus Industrie 68
AirTouch Communications (ATI) 26
Alcoa (AA) 62
AlliedSignal (ALD) 37
American Electric Power (AEP) 26, 77
Ameritech (AIT) 26
Andersen Group (ANDR) 68
Anheuser-Busch (BUD) 27, 34
Appalachian Power 26
Apple (AAPL) 6, 74
AT&T (T) 40, 54, 78, 82
A.T. Kearney 29
Autodesk (ACAD) 68

B

Banc One (ONE) 84
BankAmerica (BAC) 34
Berkshire Hathaway (BRK) 12
British Telecom (BTY) 29
Burger King 32
Burlington Northern (BNI) 34

C

Cable & Wireless (CWP) 78
Calvin Klein 53
Capital Cities/ABC (CCB) 12, 42
Cartier 53
CBS (CBS) 28, 54
Centex Construction Products 27
Champion Parts (CREB) 54
Chanel 53
China International Capital 44
Chrysler (C) 29
Cinerama 54
Circuit City Stores (CC) 74
Cisco Systems (CSCO) 30
Citibank (CCI) 54
Coaxial Communications 26
Coca-Cola (KO) 12, 44, 72
Coldwell Banker 30
Coleman 54
Compaq (CPQ) 74, 76
CompuServe 40
Computer City 74, 76
Computervision (CVN) 68
Concord Camera (LENS) 68
Consolidated Cigar 54
Contempo Realty 30
Continental Bank (CALB) 34
CPC International (CPC) 34
CS First Boston 29
CSC Index 4
CSX (CSX) 37
Cummins Engine (CUM) 77

D

Daimler Benz (DAI) 38
Dataquest 74, 76
Dean Witter Reynolds (DWD) 20, 84
Deutsche Bank 38
Deutsche Morgan Grenfell 38
Digital Equipment (DEC) 76
DKB Securities 24
Dow Jones (DJ) 62
D.R. Holdings 68

E

Eastman Kodak (EK) 68, 74, 78
Electronic Data Systems 29
Electronics For Imaging 78
Enron (ENE) 44
Ernst & Young 30
Essex Property Trust 30
Eurotunnel 64
Everest Asset Management 31

F

Ferrari of Los Gatos 30
Firexx 77
First Nationwide Bank 54
First USA Bank 84
Ford (F) 29, 54
Fox Broadcasting 54
Friedman, Billings, Ramsey 54

G

Gelman Sciences (GSC) 61
General Mills (GIS) 27
General Motors (GM) 29, 34, 84
Geotek Communications 78
Gillette (G) 54, 58, 62

H

Hancock Institutional Equity Services 62
Hardee's (IMS) 32
HarperBusiness 4
Harry J. Rashti 61
Harry Winston 53
Hearst Magazines 27
Hermès 53
Hertz 27
Hewlett-Packard (HP) 74, 76
Hitachi (HIT) 78
H.J. Heinz (HNZ) 62

I

IBM (IBM) 34, 40, 54, 68, 74
Inco (N) 62
Incredible Universe 76
Indigo 78
Intel (INTC) 74
International Data 74
International Flavors & Fragrances (IFF) 58
International Paper (IP) 62
Internet Info 4
Interstate Bakeries (IBC) 34

J

J.P. Morgan (JPM) 29
Judith Leiber 53

K

KFC 44
King World Features 28
Kleinwort Benson 64
Kmart (KM) 54
Koss 13
Kraft Foods 34, 82
Kurt Salmon Associates 27

L

Lannet Data Communications 78
Lasmo 64
Leaseway Transportation (LSWY) 68
Lehman Brothers (LEH) 54, 78
Liberty Cable 26
L'Oréal 58
Louis Vuitton North America (LVMHY) 53

M

MacAndrews & Forbes 54
Machu Picchu Pueblo Hotel 85
Madge Networks 78
Mafco Consolidated 54
Marvel Entertainment (MRV) 54
McDonald's (MCD) 32
McGraw-Hill (MHP) 89
M.D. Sass Associates 68
Mellon Bank (MEL) 20
Mercedes-Benz (DAI) 68
Merck (MRK) 62
Merhav 44
Merrill Lynch (MER) 54
Microsoft (MSFT) 13, 34, 68, 76
Mitac International 74
MMS International 89
Morgan Stanley (MS) 44
Motorola (M) 6, 78
MVP Ventures 78

N

NatWest Securities (NW) 31
NBC 28, 54
Netscape Communications 4, 62
New World Communications (NWCG) 54
News Corp. (NWS) 54
Ney Dental 68
Nippon Investment & Finance 78
Nobody Beats The Wiz 76

O

Occidental Petroleum (OXY) 54
Oppenheimer (OCC) 62

P

Pacific Telesis (PAC) 26
Packard Bell 74
PaineWebber (PWJ) 34, 82
Pechiney 64
Penske Truck Leasing 68
PepsiCo (PEP) 44
Performance Systems International (PSI) 4
Perot Systems 29
Personal Technology 76
Phoenix-Shannon (PHNXY) 68
PNC Bank (PNC) 84
Porges & Hudson 84
Porsche 29
Portals 64
Prada 53
Procter & Gamble (PG) 58

Q

QVC (QVCN) 54

R

Ralcorp Holdings (RAH) 27
Ralston-Purina (RAL) 34
RAM Research Group 84
Revlon 54, 58
RGP Holding 54
R. H. Wrightson 24
RJR Nabisco (RN) 12
Rockwell International (ROK) 12
Rolls-Royce 68
Rothmans International 64

S

Saks Fifth Avenue 53
Salomon Brothers (SB) 12, 54, 64
Salvatore Ferragamo 53
Santa Fe Pacific (SFX) 34
SBC Warburg 64
Schröder Münchmeyer Hengst
SCI Systems 74
Scitex 78
Scott Paper (SPP) 27
SD Scicon 29
Sears (S) 76
Security Link 26
Skadden Arps 54
Sleepy Kids 64
Smith Barney 27, 82
Smith New Court 64
Southern Pacific Rail (RSP)
SpectraVision (SVN) 29
Spectrum Economics 30
Sprint (FON) 29
Spyglass 4
Star Banc (STB) 84
Starbucks (SBUX) 32
Stratacom 30
Swiss Bank Corp. 64

T

Tactical Retail Solutions 53
Technicolor 54
Tele-Communications (TCOMA) 26, 28
Time Warner (TWX) 26, 28
Toppan Printing 78
Triangle 64
Turista Hotel 85
Turner Broadcasting System (TBS) 28

U

Union Pacific (UNP) 34
United Biscuits 34
USAir (U) 12
UUNET Technologies 4

W

Wachovia Bank 84
Wal-Mart (WMT) 54, 74
Walt Disney (DIS) 12, 42
Warner-Lambert (WLA) 62
Washington Post (WPO) 12
Wendy's (WEN) 32
Westinghouse (WX) 28
WorkGroup Technologies 7

Y

Yankee Group 29

Z

Zenith Data Systems 76

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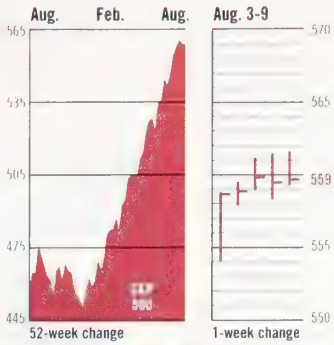
vestment Figures of the Week

NTARY

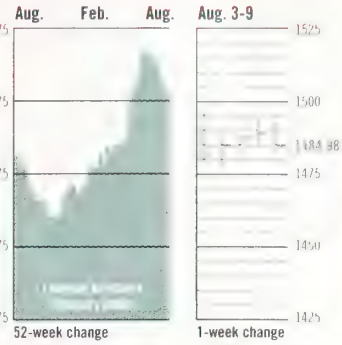
and the Dow sagged smaller-cap indexes slight gains, with the composite retaking the ark. There was some pointment at the recep- the Treasury's Aug. 8 of three-year notes. r, the next day, the $13 10-year note sale went uns. Still, that didn't ocks. The market may r some rough sledding. e four technical indica- own on this page—only pointing upward.

STOCKS



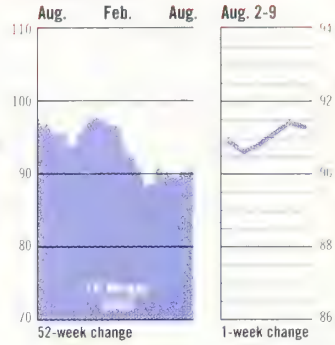
52-week change +21.6%
1-week change +0.2%

BONDS



52-week change +6.6%
1-week change −0.5%

THE DOLLAR



52-week change −6.5%
1-week change +0.4%

KET ANALYSIS

OCKS	Latest	% change Week	% change 52-week
IES INDUSTRIALS	4671.5	−0.4	24.0
COMPANIES (S&P MidCap Index)	206.3	0.6	19.4
OMPANIES (Russell 2000)	299.6	0.6	21.6
PANIES (Russell 3000)	321.1	0.3	21.5

N STOCKS	Latest	% change (local currency) Week	% change (local currency) 52-week
(FINANCIAL TIMES 100)	3468.3	−0.9	9.5
IKKEI INDEX)	16,789.3	0.4	−19.2
(TSE COMPOSITE)	4623.9	0.6	10.0

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	5.53%	5.57%	4.43%
30-YEAR TREASURY BOND YIELD	6.92%	6.86%	7.57%
S&P 500 DIVIDEND YIELD	2.38%	2.39%	2.77%
S&P 500 PRICE/EARNINGS RATIO	16.2	16.4	18.7

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day moving average	499.8	497.4	Positive
Stocks above 200-day moving average	75.0%	75.0%	Negative
Speculative sentiment: Put/call ratio	0.59	0.60r	Negative
Insider sentiment: Vickers sell/buy ratio	2.28	2.24	Neutral

BLOOMBERG FINANCIAL MARKETS

USTRY GROUPS

ONTH LEADERS	% change 1-month	% change 12-month	Strongest stock in group	% change 1-month	% change 12-month	Price
ITAL MANAGEMENT	13.6	18.4	COLUMBIA/HCA HEALTHCARE	15.3	26.4	49 1/8
TH-CARE SERVICES	10.3	37.0	MANOR CARE	18.4	35.0	33 3/4
ISHING	8.1	5.1	MEREDITH	32.7	46.5	33 1/2
DCASTING	8.0	28.6	CBS	17.5	27.8	78 3/4
S	8.0	20.7	STRIDE RITE	13.4	−21.2	11 5/8

ONTH LAGGARDS	% change 1-month	% change 12-month	Weakest stock in group	% change 1-month	% change 12-month	Price
L	−14.9	−19.3	NUCOR	−18.0	−22.9	51 3/4
EBUILDING	−11.2	7.5	KAUFMAN & BROAD HOME	−13.1	−7.8	13 1/4
L AND GLASS CONTAINERS	−8.7	28.5	CROWN CORK & SEAL	−10.3	26.6	44 5/8
IALTY APPAREL RETAILERS	−8.6	−10.8	THE LIMITED	−11.2	0.7	18 7/8
ND GAS DRILLING	−7.6	−2.6	ROWAN	−9.5	−12.3	7 1/8

UAL FUNDS

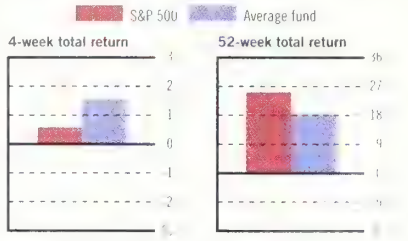
MORNINGSTAR INC

RS

ek total return	%
TCH MICRO-CAP	12.1
ITY SELECT MEDICAL DELIVERY	11.7
ICAN HERITAGE GROWTH	9.4
k total return	**%**
GMAN COMMUNICATIONS & INFORM. A	114.5
ITY SELECT ELECTRONICS	94.8
R CAPITAL APPRECIATION	94.0

LAGGARDS

Four-week total return	%
STEADMAN AMERICAN INDUSTRY	−8.7
STEADMAN INVESTMENT	−4.8
REMBRANDT ASIAN TIGERS INV.	−3.9
52-week total return	**%**
WRIGHT EQUIFUND-MEXICO	−45.2
STEADMAN AMERICAN INDUSTRY	−30.6
BT INVESTMENT LATIN AMERICAN EQUITY	−30.1



ATIVE PORTFOLIOS

mounts represent the value of $10,000 d one year ago portfolio

tages indicate / total returns

U.S. stocks	Treasury bonds	Foreign stocks	Money market fund	Gold
$12,506	$11,583	$11,040	$10,531	$10,183
+0.13%	+0.38%	−0.58%	+0.13%	+0.43%

n this page are as of market close Wednesday, Aug. 9, 1995, unless otherwise indicat- ry groups include S&P 500 companies only; performance and share prices are as of market close Aug. 8. Mutual fund returns are as of Aug. 4. Relative portfolios are valued as of Aug. 8. A more detailed explanation of this page is available on request. r=revised NA=Not available

SAW THE MOVIE? NOW FUND THE SCIENTISTS

When the American public spends in one weekend twice as much on a movie about an exotic lethal virus as it allocates all year to real-life outbreak-fighting public-health scientists, something is out of whack. The take-home lesson from the best-seller *The Hot Zone* and the movie *Outbreak* is that, biologically speaking, we live in one small world. Dangerous infectious agents such as Ebola, Marburg, and Lassa are never more than a plane ride away from American soil. HIV was once an undiscovered African virus.

From at least Adam Smith on, economists have agreed that at the heart of any government's duties are defense, public safety, and public health. Yet scientists at the Special Pathogens Branch of the Centers for Disease Control & Prevention are exhausted from fighting outbreaks, including Ebola in Zaire this year, without enough money or manpower.

This condition is potentially disastrous. The work of these scientists and other public-health officials on the front line of preventable diseases is an insurance policy that a sophisticated nation can't afford to let lapse. Neither industry, nor academia, nor the military, nor any other international group can match the CDC's talent and experience. "It's not only a U. S. agency. It's a world agency," says Bernard Le Guenno, a virologist at the Institut Pasteur in Paris. The CDC has estimated it needs an additional $125 million a year to cope with the threat of emerging infections. This year, it got a further $6 million toward that goal. In the new budget bill under review in the House, the CDC would get a $39 million increase in its current $2.085 billion budget, but none of that raise would go toward fighting deadly infections.

Outbreak is fiction. Controlling and studying an outbreak today in a Bolivian jungle that could claim lives tomorrow in Anytown, U. S. A., is reality.

DON'T DERAIL THE BALANCED BUDGET

It's depressing. The cynics may be right after all. For several months, it has appeared that a balanced-budget compromise was on the cards in Washington. Sure, a lot of details needed to be worked out, and there were tough compromises to be made—over Medicare, the Commerce Dept., and other funding priorities. But the Senate, the House, and President Clinton had all signed on to the goal of bringing the budget under control shortly after the turn of the century. This year's rallies in the stock and bond markets have been premised on these signs of fiscal rectitude.

But now, it looks like business as usual in Washington. Inside the Beltway, sophisticates are all abuzz over the budget "train wreck" that'll happen when it becomes necessary to vote on increasing the government's debt ceiling in the f Here's the problem: Republican legislators will attach a hi ly partisan budget-balancing provision to this fall's bill raise the debt ceiling. If President Clinton dares to veto legislation, the federal government won't be able to pay bills—and the U. S. will default on its debt.

The lunatic tactic of goading the President at debt-ceil time was frequently used by congressional Democrats agai Republican Presidents in the 1980s. It's a suicidal game i world of global capital markets. If the government re did default, no matter how briefly, the financial market sel would be horrendous. Of course, the betting is that some probably Clinton, will blink. But is this any way to show litical leadership—threatening to undermine the full f and credit of the U. S. government?

The economic payoff from fiscal discipline is too high, the damage from failure too great. Now is the time for p cymakers from both parties to negotiate a credible bl print. Balancing the budget would raise savings, investm and productivity. There's an added bonus, according to DRI/ Graw-Hill, the economic consulting firm: If the deficit start decline now and if balance is reached by the early year the 21st century, publicly held debt per household, curre $37,442 will decline to $29,962 (measured in 1995 dollars it's business as usual, public debt per household will jump $45,069. No train wrecks, please.

GOOD NUMBERS ARE WORTH A GOOD DEAL

What use is an Information Age if the informatio bad? That's what we may get if Washington cuts budget of the Bureau of Economic Analysis, which collec lot of America's statistics. At the moment, the BEA's budge slated to be cut from $48.1 million in fiscal 1995 to $40 mi in 1996.

Bad idea. The government's number-crunchers are tryin overhaul the statistics on output and price. They are at early stages of arriving at a better reading of what is hap ing in the economically vital, but statistically murky, vice- and information-dominated parts of the economy. R now, we don't know whether gross domestic product ros a 0.5% annual rate in the second quarter, as reported, decl at a 0.2% pace, as the BEA's admittedly incomplete revis of GDP suggests, or was a different growth rate altogethe the BEA doesn't get more money to finish improving the tistics, we won't know if productivity is growing at the 2% nual rate previously calculated, is rising at a mere 1.3% new numbers suggest, or some other number.

The answers are of interest to more than the fraternit forecasters. Economic statistics affect how business invests lions of dollars in new plant and equipment, how stock bond traders allocate the trillions they control, and how Federal Reserve Board conducts monetary policy. Misinfo tion is dangerous in an information economy.

SNEY HOW WILL OVITZ FIT? CONGRESS LOOK WHO'S TRADING STOCKS DOLLAR WHY IT'S TAKING OFF

BusinessWeek

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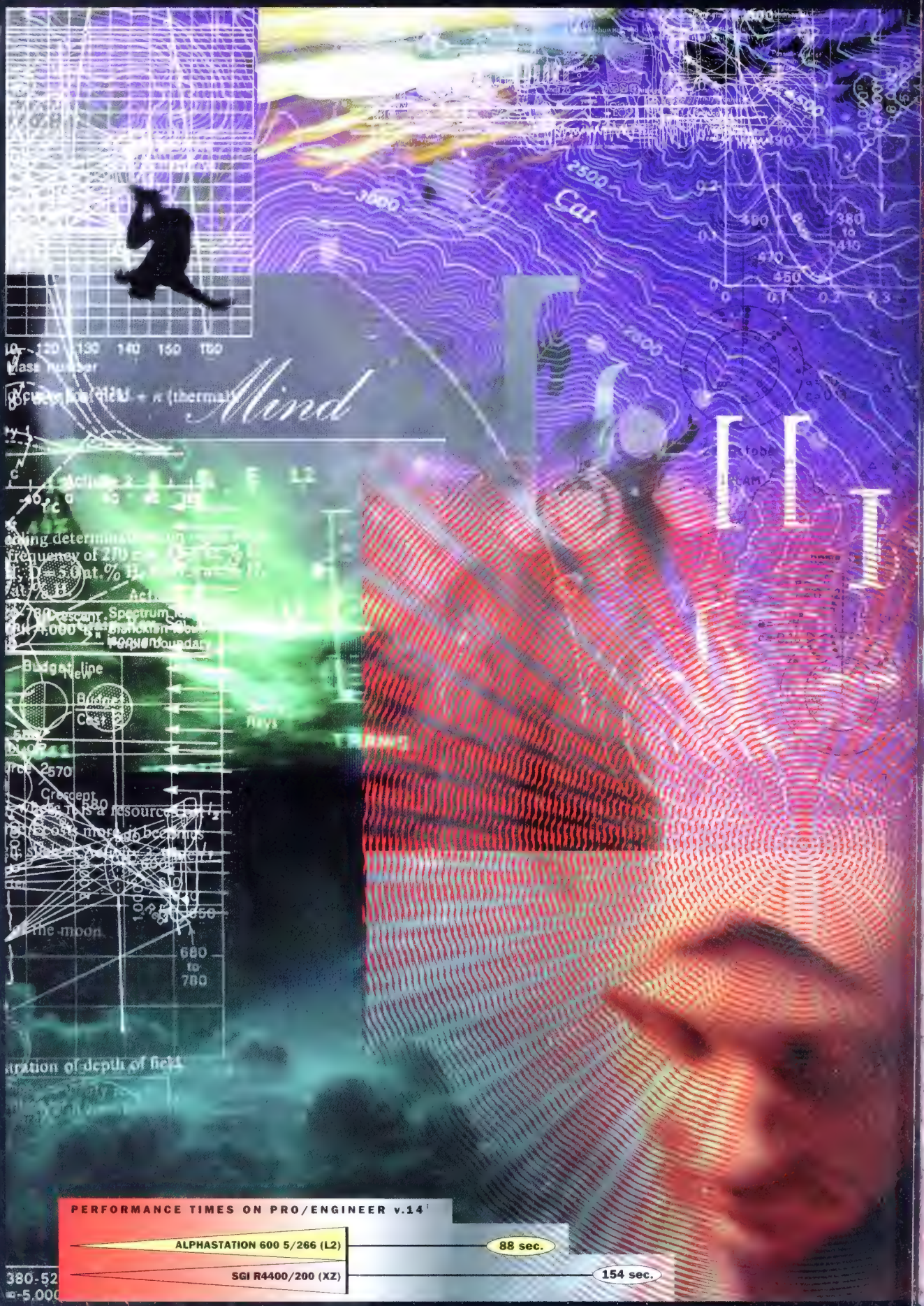
NVESTING IN HIGH TECH

low to avigate in Sizzling Market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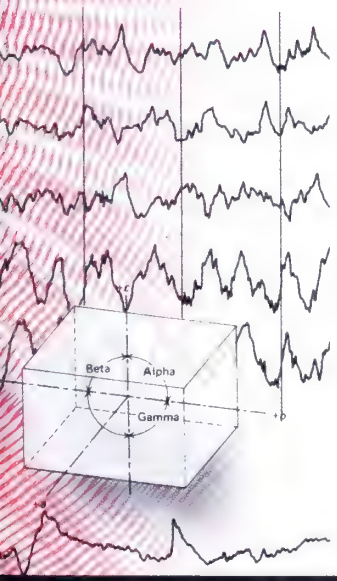
E THINK IT'S IE FASTEST ORKSTATION THE NIVERSE.

UT GIVE US A ECOND AND E'LL RUN TH ATA AGAIN.



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BusinessWeek

AUGUST 28, 1995

Cover Story

52 INVESTING IN HIGH TECH
Technology stocks are still surging, but they can be volatile. BUSINESS WEEK's guide to the tech boom can help you reap the often rich rewards—without falling victim to the frenzy

55 HANDICAPPING THE HEAVYWEIGHTS
Don't write off the Goliaths of the industry—they have unique strengths

56 SOFTWARE IS "FIRING ON ALL FRONTS"
With the launch of Windows 95, this hot-growth sector can only get hotter

57 STRIKING GOLD ONLINE
The Info Highway is sizzling—though not all companies are sure winners

58 PCs ARE WHERE THE ACTION IS
Consumers continue to fuel spectacular growth, even in the top tier

60 CHIP INVESTORS: DON'T GET GIDDY
The industry is awash in good stocks

62 THE RACE IN NETWORKING
Winners need fast gear and swift deals

64 TELECOM GATES SWING OPEN
With deregulation looming, get set for a free-for-all that may benefit everyone

News: Analysis & Commentary

28 THE OVITZ EFFECT
Disney could be Hollywood's heaviest hitter—if Chairman Eisner and his superagent-turned-No. 2 man can coexist

30 SUDDENLY, IT'S AN AIRWAVES MELEE
Broadcasters are buying and selling their stations at a phenomenal pace

31 WIN95: FEEL THE BUZZ
Microsoft's marketing blitz will be deafening—and costly

32 YEN GAME
Japan is gambling with a bold rescue scheme to end its slump

33 FOLLOW THE BOUNCING BUCK
Swings in exchange rates wreak havoc

34 THE FDA VS. BIG TOBACCO
If the focus stays on kids, the agency may win some controls

35 TEEN SMOKING: JUST SAY "TAX"
Taking a leaf from Canada's book

36 A $3.8 BILLION SWAN SONG
PECO's Joe Paquette leaves with a bang

36 EXXON'S TIGER FUND: HELP OR HYPE?
A $5 million pledge won't go toward antipoaching work or habitat protection

38 IN BUSINESS THIS WEEK
An Ohio county vs. the Street, Us, Compaq, the GE whistle-blo Fidelity, Federated Stores, Bill

International Business

42 MEXICO
The peso's collapse has inflamed passion for change—as a reform gains political clout

45 ARGENTINA
A talk with President Carlos M who's hanging tough on reforms

47 INTERNATIONAL OUTLOOK
After the cold war, the nuclear continues to grow

Economic Analysis

20 ECONOMIC VIEWPOINT
Dornbusch: A personal-savings pensions worldwide

24 ECONOMIC TRENDS
Look again at U.S. medical bills in Japan, behind the banks' bris lending, a stall in life expectanc

25 BUSINESS OUTLOOK
An economy that's just right

COVER STORY

I-TECH INVESTING

nfo Highway might be paved
old, but you still need to
the rules of the road

SEKETEER

y got Ovitz–and
gets even more
and influence

VOTING SHARES

A BUSINESS WEEK survey of what stocks lawmakers own page 66

FALL LINE

Copycat rivals and a warm winter jinxed Spiegel page 80

REBOUND

The greenback's comeback may roil the economic waters page 33

CASUALTY

Mexico aims to root out corruption —despite reprisals page 42

IN THE PINK

Meet Pat Ryan, chief of insurer Aon page 78

vernment

SHINGTON OUTLOOK
npaign reform: Pressure from
ton and Perot has the GOP
ership feeling the heat

e Corporation

OVEABLE FEAST FOR MITSUBISHI
an's No. 4 carmaker is using joint
tures in fast-growing nations to take
antage of an Asian auto-sales boom

nance

GRESS' PORTFOLIO
y lawmakers own shares in
panies that come under
gressional scrutiny

EW FACE FOR BANK LEUMI
a Maor, Israel's first female bank
f, will focus on wholesale markets
technology

DE WALL STREET
ker may start feeling its oats
sion ahead at Perkin-Elmer?
v Britain could juice up Houston

ESTMENT FIGURES OF THE WEEK

Legal Affairs

72 VALLEY OF THE POLS
The big guns of California high tech are building a war chest for tort reform via proposed ballot initiatives

Science & Technology

73 A GRAND ALLIANCE IN FLAT SCREENS
Startup PixTech's breakthrough displays could leapfrog Japan's giants and set off a new technology race

77 DEVELOPMENTS TO WATCH
Zapping one nerve at a time, gyroscope Earth, colored mulches for veggies

People

78 INSURANCE'S DYNAMIC TAG TEAM
At Aon, the No. 2 U.S. broker, Pat Ryan took over from the legendary W. Clement Stone—and took off

Marketing

80 CAN SPIEGEL STOP SPIRALING?
Sales at its Eddie Bauer stores are weak; the catalog isn't doing a whole lot better

Social Issues

81 GETTING A RETURN ON GIVING
More corporate donations are made with self-interest in mind, and the recipients of largesse are often carefully monitored

Personal Business

82 MUTUAL FUNDS: PC guidance
SMART MONEY: Term life insurance
POTABLES: Inexpensive wines

Features

6 UP FRONT
12 READERS REPORT
16 CORRECTIONS & CLARIFICATIONS
17 BOOKS
Dellheim: *The Disenchanted Isle*
18 TECHNOLOGY & YOU
Easing the pain of transferring your old files to an upgraded PC system
87 BUSINESS WEEK INDEX
88 INDEX TO COMPANIES
90 EDITORIALS
There's value under the high-tech surge
Sanity returns to the currency markets
Full disclosure on the Hill

Up Front

EDITED BY LARRY LIGHT, WITH OLUWABUNMI SHABI

GOP FORMULA: *Bidding may end*

CAPITAL OFFENSES

THE SOURING OF U.S. MILK AID

THE STATES'-RIGHTS-MINDED House voted this spring to junk federal rules for buying poor kids' baby formula. But the plan, if the Senate goes along, may milk the Treasury even more. Under heavy lobbying from makers of baby food and formula, the House wiped out a rule requiring competitive bidding when states buy formula for the Women, Infants, & Children (WIC) nutrition program.

The 1989 rule has forced down prices, saving WIC some $1.1 billion in 1994. Five pacts bid since mid-April will more than halve formula prices. Ten Western states will buy Mead Johnson's Enfamil for just 19.8¢ a 13-ounce can, vs. $2.10-plus at retail. GOP reformers still insist states can run things more cheaply.

Why wouldn't states take competitive bids on their own? Before 1989, only half of them did. Since the Agriculture Dept. pays 100% of WIC costs, there's no incentive for states to keep costs down. Plus, if the bidding system is scrapped, formula makers offer to share profits with cash-strapped state governments. *Mike McNamee*

NEW WORLD ORDER

A FATAL FIRE, THE KGB, AND A LAWSUIT

EXHIBIT A: *Is it libelous?*

CELEBRATED author John McPhee's *The Ransom of Russian Art* got pretty good reviews. But not from former Russian dissident Ilya Levin, who has filed a $6 million federal suit in New York claiming McPhee libeled him. Levin says the 1994 book—which details how dissidents' paintings were spirited out of the Soviet Union—implies he conspired with the KGB in the mysterious 1976 demise of a major Russian dissident artist. Also named: publisher Farrar Straus & Giroux and *The New Yorker*, which printed an excerpt.

The suit focuses on McPhee's depiction of the death of 32-year-old Evgeny Rukhin in a fire in his studio. Four people were in the studio that night, including Levin. Now a news producer for the United States Information Agency in Washington, Levin is the only survivor. McPhee writes that several Rukhin friends suspect murder and KGB involvement. And in the book—but not in the magazine—one person is quoted as suggesting Levin kept track of Rukhin for the KGB. Levin calls the charge "preposterous" and claims McPhee never contacted him.

A *New Yorker* spokeswoman says the fleeting reference to Levin in the excerpt didn't defame him. A lawyer for McPhee and Farrar Straus says he expects the suit to be dismissed. *Stan Crock*

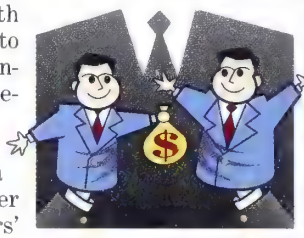
TALK SHOW "Protecting the Disney name is an awesome task that I can't do myself. Together, we can do it."

—Disney Chairman Michael Eisner, on tapping superagent Michael Ovitz as his No. 2

PROXY WARS

FIGHT FOR YOUR RIGHT TO DOUBLE DIP

CORPORATE-GOVERNANCE campaigners have claimed a few victories in recent years, such as better linking of execs' pay to company performance. But efforts to block directors from doing business with the company are getting nowhere.



Directors with a business link to the company "cannot act in an independent fashion," says Kenneth Steiner, a founding member of the Investors' Rights Assn. Companies generally dismiss these conflict-of-interest charges as inconsequential and say that barring two-hat directors would keep many talented people off boards.

So far, say shareholder groups, none of the resolutions banning business links, about five per year, has passed. Consider pharmaceutical maker Carter-Wallace, a client of Director Herbert Rinaldi's law firm—Carella, Byrne, Bain, Gilfillan, Cecchi, Stewart & stein. This spring, Steine resolution was soundly defe ed. Rinaldi calls his firr work for Carter-Wallace—fe undisclosed—"minimal."

A similar proposal lost c at retailer Home Dep Director Kenneth Lango also is chairm of Invemed A sociates. 1994, Ho Depot paid I vemed $100,0 for investme consulting. La gone says loses money on the busine since he personally pays consulting travel to Ho Depot stores via private j

Of course, many two-h arrangements aren't ch lenged. Last year, telec outfit GTE paid Boston C sulting Group some $2.6 m lion. Dr. Sandra Moose, a G director, is a Boston Consu ing senior v-p. GTE says o that this is less than 5% the year's total consulting e penses. *Miguel Gonzalez*

THE LIST PUMPED-UP PAYOUTS

Steadily rising dividends at a company are a good sign for stock-pickers. *The Outlook*, Standard & Poor's investment newsletter, has a list of outfits that have boosted cash payouts each year—and outstripped the overall market. In total return, $1,000 invested in th S&P 500 in 1985 was wort $4,743 at the end of July. The Top 10 dividend boosters do ble that or better. Merck, No. 1 on the list, jus announced a typical payout hike, from 30¢ to 34¢ for its fourth quarter.

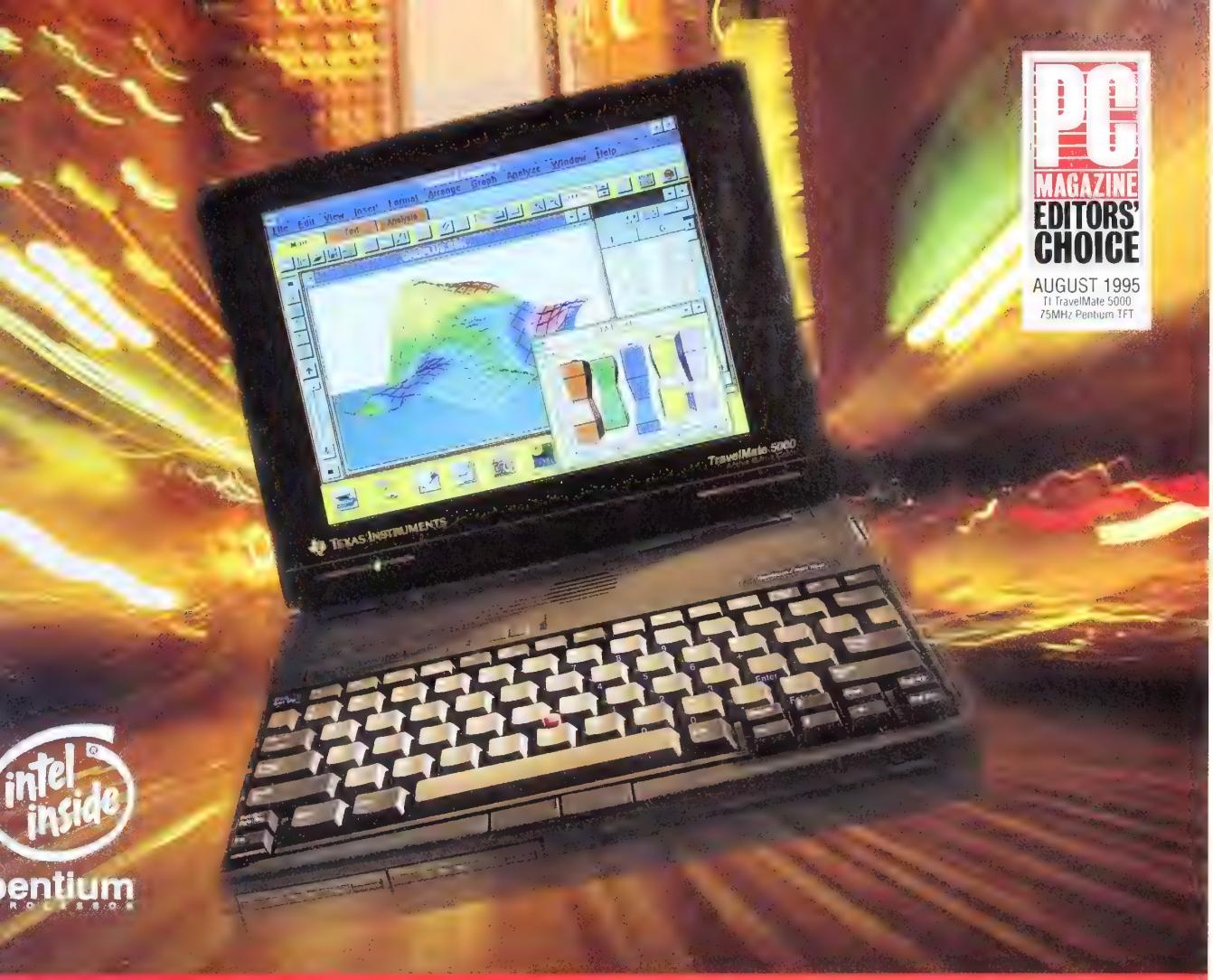
MERCK

TOP DIVIDEND INCREASERS

	CUMULATIVE INCREASE*	TOTAL RETURN**		CUMULATIVE INCREASE*	TOTAL RETURN
1. MERCK	665%	$12,094	6. SYNOVUS FINANCIAL	352	$7,62
2. PHILIP MORRIS	585	10,710	7. ANHEUSER-BUSCH	336	5,79
3. BEMIS	412	10,271	8. WILMINGTON TRUST	336	7,46
4. ABBOTT LABS	397	9,181	9. HORMEL	329	7,77
5. McCORMICK	372	6,774	10. JOHNSON & JOHNSON	314	9,58

*1985–7/31/95 **On $1,000 initial investment, 1985–7/31/95, reinvesting dividends

DATA: STANDARD & POOR'S



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TEXAS INSTRUMENTS

Up Front

AFTERLIVES

THE CBS DEAL AS SEEN FROM THE PASTURE

AS WESTINGHOUSE makes its showy offer to buy CBS for $5.4 billion, Paul Lego has his nose pressed against the window. Ousted as Westinghouse's CEO in 1993, Lego wishes he could have bid for the network, friends say—he just lacked the money. Irony: Successor Michael Jordan, after cleaning up the balance sheet, suffered many of Lego's old frustrations in trying to squeeze growth out of the company's industrial units. Hence, the shift to broadcasting.

LEGO: *Wistful*

Clearly, Jordan is no fan of his predecessors, including Lego, under whom Westinghouse suffered $5 billion in write-offs in 1991 and 1992 because of its problem-plagued financial arm. In what company insiders say was an attempt to boost morale by severing reminders of the past, Jordan last year moved Lego and other alumni from their courtesy offices at headquarters to nearby PPG Tower. Since Lego is named in shareholder suits against the company, he says he can't talk about it.

It doesn't seem to bother Lego, 65, much, however. Four times a year, he travels to beautiful Montefoscoli, Italy, where he is part-owner of a small winery, which he says is "a lot of fun." He is also the non-executive chairman of Commonwealth Aluminum, whose stock has risen from $14 a share to $25 since it went public five months ago. That's quite a change from his final Westinghouse days. *Stephen Baker*

LESS CUSHION: *Severance could be slashed*

UNION DUES

A BUMPIER RIDE FOR AMTRAK WORKERS

REPUBLICANS IN CONGRESS are targeting one of the cushiest deals in organized labor, at Amtrak. Currently, management can't contract out union jobs. And laid-off workers can get six years' worth of severence pay.

Transportation Committee Chairman Bud Shuster (R-Pa.) is threatening to block renewal of Amtrak's $725 million annual subsidy—almost one-third of its costs—if unions don't agree to givebacks. What's needed, says Shuster, is "major surgery." Talks between Shuster and the unions broke down recently after labor lawyers balked at cutting severence pay to six months and allowing Amtrak to contract out work, such as maintenance. Unions fear such measures could be imposed on the freight industry, whose workers have similar protections.

While Amtrak is a popular program on Capitol Hill, even the unions understand that budget and political realities are forcing cuts. Shuster's tenacity on the subject, say Congress watchers, makes it likely Amtrak's unions will end up giving up a good bit. *Christina Del Valle*

DRAWN & QUARTERED

BALLPARK FIGURES

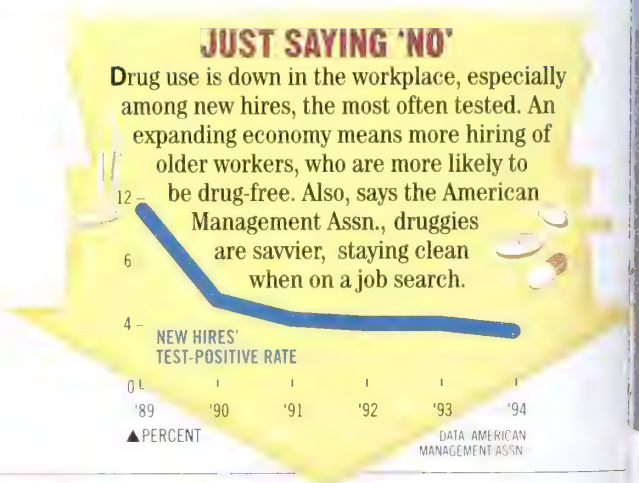
ARE HARD BALLS SAFER THAN SOFT?

SOMETIMES, IT'S BETTER FOR a young baseball player to be hit with a hard ball than a softer one. That, anyway, is the claim of a mechanical engineering professor from Rensselaer Polytechnic Institute in Troy, N.Y. Henry Scarton argues that a softer ball may vibrate at the same frequency as vulnerable internal organs and transfer most of its impact to them. Result: possible heart failure from cardiac arrhythmia. The Institute for Preventative Sports Medicine in Ann Arbor, Mich., has also questioned the safety of softer balls.

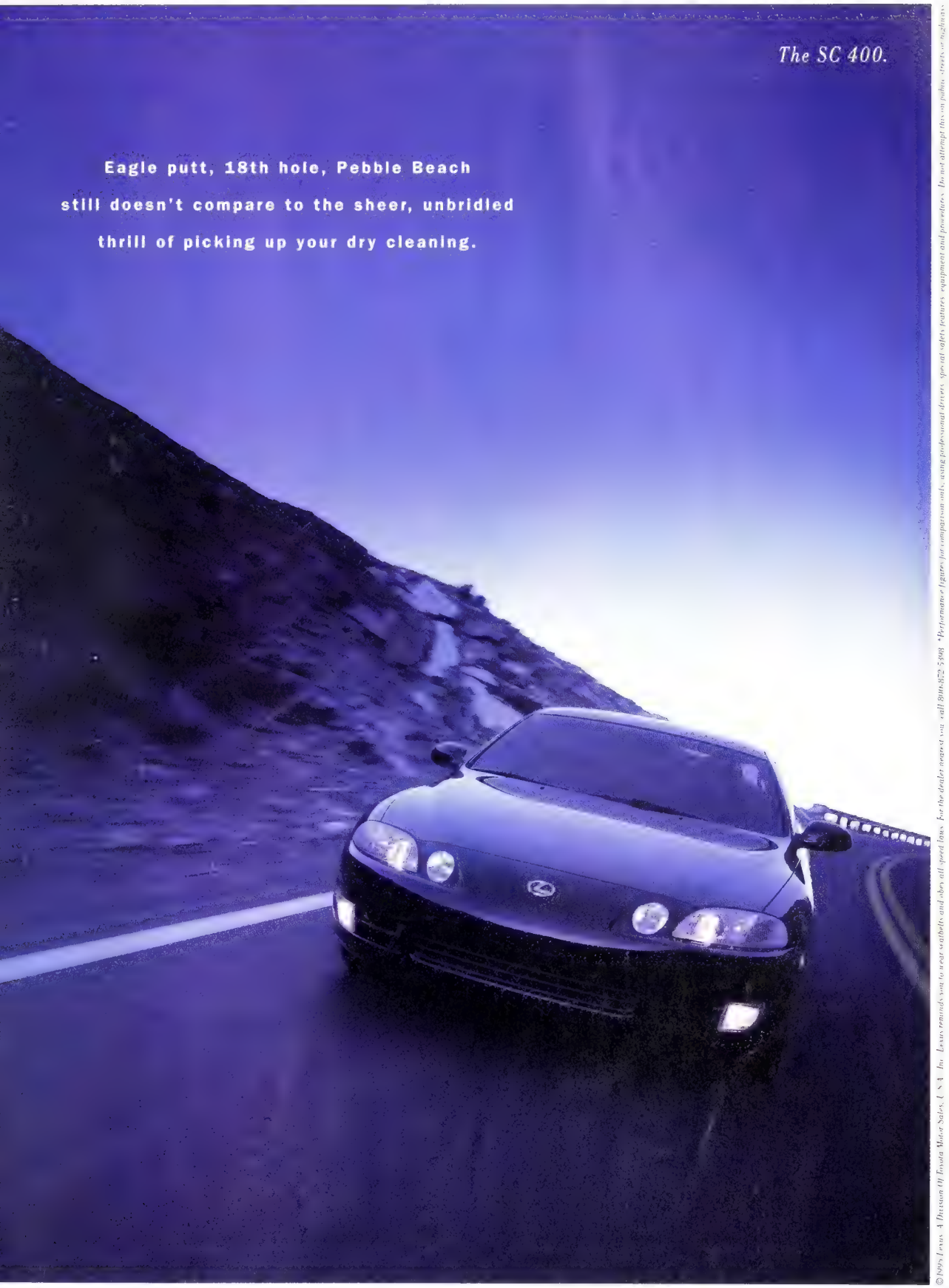
But studies show traditional hard balls are involved in nearly all deaths of young players. Michigan State University reported 73% fewer injuries among youth teams using softer "safety balls," such as those from Worth Inc. Worth Chairman Jeff Heald says Scarton's study doesn't hold water. *Peter Co*

THE PITCH: *Packs a wallop*

THE BIG PICTURE



FOOTNOTES Output rise U.S. workers say they could achieve: 26%; one obstacle: 37% say their work isn't closely supervise



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Readers Report

KOREA: THE PERILS AND THE PROMISE

Your article "Korea" (Cover Story, July 31) spends little time considering the reality of the relationship between North and South Korea and downplays the enormous financial and social costs South Korea will incur with reunification. The belief in a peaceful solution to reunification is not held by most analysts and military officers. The specter of a bloody war and nearly 50 years of an uneasy and often violent cease-fire have not reduced the likelihood of military confrontation.

Regardless of a peaceful or military solution to reunification, the cost of fixing 50 years of communist dictatorship in North Korea will be astronomical and casts a pall over the hard-won economic prosperity of South Korea. A pertinent question to ask the citizens of South Korea is how much they are willing to spend on bringing North Korea up to a reasonable standard of living. An economic analysis of the true costs of future reunification should be conducted to ascertain if South Korea, and inevitably the United States and Japan, are willing to pay that price, or if simply providing enough assistance to maintain an independent North Korea at a stable level would provide greater benefit.

Lieutenant Chris Pontrelli
Naval Strike Warfare Center
Fallon, Nev.

South Korea may or may not have the greatest number of PhDs per capita overall, but it is certainly going to attain this level in engineering PhDs before very long. When one takes account of graduation figures for Koreans at home and abroad, it is evident that Korea is acquiring new engineering PhDs at about twice the per capita rate achieved in the U.S.

Apart from PhDs, Korea is also producing graduate engineers in relatively large numbers. My projections indic that Korea's emphasis on engineeri education will result in that count joining Japan and Germany in havi more persons with engineering degr per capita than the U.S. This is lik to happen well before the year 20 Taiwan and Singapore are also on t path being followed by Korea. Since great majority of researchers in t manufacturing sector are engineers, implications for the U.S. economy co be significant.

Michael R
Victoria, Austra

ONE KOREA: WHO PAYS?

"The cost of fixing 50 years of communist dictatorship in North Korea will be astronomical and casts a pall over the hard-won prosperity of South Korea"

SELLING BOOKS A NEWFANGLED WAY: BUYING THEM

As an author of another busin book that is now on the shelves, I sent Michael Treacy's assertion in "I dirty tricks create a best-seller?" (Ne Analysis & Commentary, Aug. 7) t the tactics used constituted "creat marketing." If the market accepts tactics used by CSC Index and the t authors, we will quickly arrive a point where only those with deep po ets will be able to present their ideas the business community. There are so creative ways of promoting a book, deliberately inflating the sales figu is not one of them.

Ed Dee
Managing Parti
Deevy Gilligan Internatio
North Andover, Ma

I purchased *The Discipline of Mar Leaders* based upon "consensus" b

Business Week

A Division of The McGraw-Hill Companies

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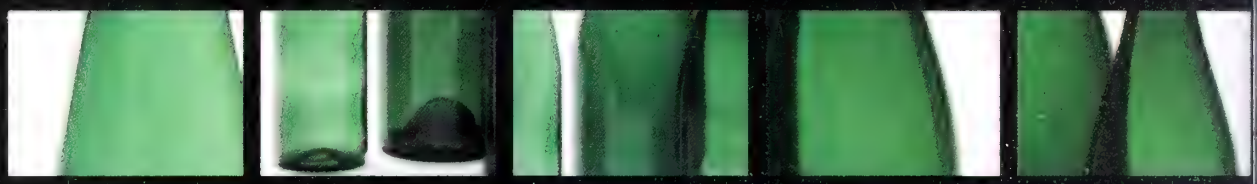
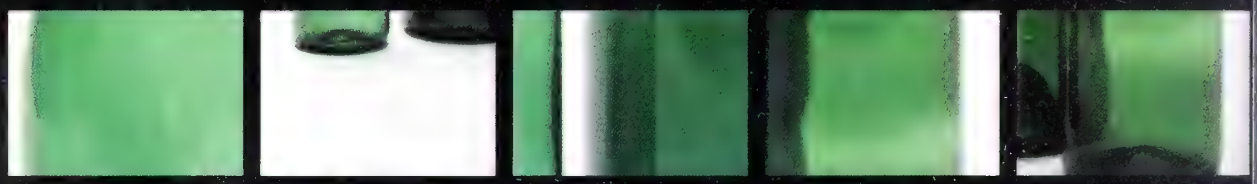
You're on the road. With a client.

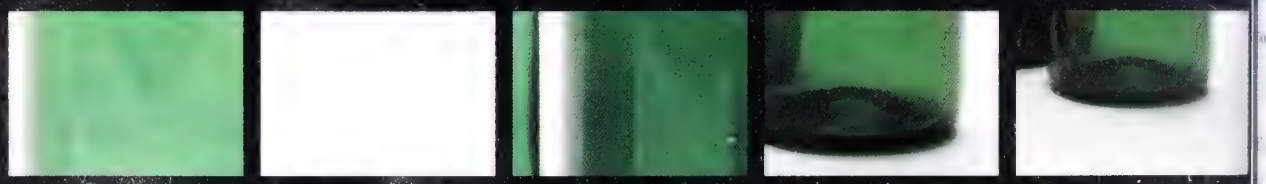
You need to locate a bottle design.



HQ's database has 40,000 bottles.



And all you know is the shape.



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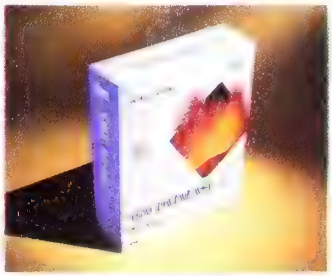

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reviews as reported by *The New York Times*, BUSINESS WEEK, and other recognized sources. After reading the book, I was curious why it was so well received. Now I know. I have returned the book, with sales receipt, to Addison-Wesley Publishing Co. requesting a refund.

G. Richard Barnes
President
Operations Technology
Laguna Hills, Calif.

Your attempt to show that Michael Treacy and Fred Wiersema have done something unethical in promoting their book is unconvincing. They merely took advantage of all the poor saps in America who pay attention to best-seller lists. It was an excellent strategy that paid off.

James Raymond
Las Vegas

I actually found the strategy used to gain position on *The New York Times* best-seller list more fascinating reading than the authors' book on *Discipline*.... These guys are marketing geniuses with questionable ethics.

If they want to legitimately achieve placement on *The New York Times* best-seller list, I have a suggestion for their next book: *How to Get Your Book on* The New York Times *Best-Seller List*.

Eric Wexler
Salinas, Calif.

WHEN IS A TAX CUT REALLY A TAX CUT?

Re your article "Power to the states" (Cover Story, Aug. 7), the sidebar describing Governor John Engler of Michigan was misleading. Property taxes for education were not eliminated. They were reduced and accompanied by a minuscule reduction in the state income tax. There was no magic here. To make up the difference, Governor Engler raised the state sales tax 50% (from 4% to 6%) and put a huge increase on the cigarette tax, raising it to 75¢ per pack, probably the highest in the nation.

The result of this is that the state is actually taking in far more revenue than it had under the previous rules. When this happens, we generally regard the accompanying actions as a tax increase, which it was. To create the illusion, as your column does, that Governor Engler can perform feats of fiscal prestidigitation on this scale is quite incorrect.

Geoffrey K. Wascher
Utica, Mich.

CORRECTIONS & CLARIFICATIONS

In "Did dirty tricks create a best-seller?" (News: Analysis & Commentary, Aug. 7), author Fred Wiersema's age was incorrect because of erroneous information supplied by his employer. He is 47, not 43. The article also implied that Gemini Consulting bought 5,000 copies of *Transforming the Organization* directly from the publisher, McGraw-Hill, when in fact the purchases were made from bookstores. The article also omitted the full name of David A. Goehring, and his title, which is vice-president and publisher of Addison-Wesley's General Publishing Group.

A map accompanying the Letter from Hiroshima (Aug. 7) that ran in certain editions misidentified the location of the city and omitted the island of Shikoku.

In "Canadians reinvent the wheel" (Developments To Watch, Aug. 14), the arrow on the rotating shaft points in the wrong direction.

In "Why Johnny CEO can't add" (Up Front, Aug. 7) the correct answer to the true-or-false quiz question "a company can operate without cash" is: False.

"LCI: For whom the bells may troll," (Information Processing, Aug. 14) should have said that E. M. Warburg Pincus & Co. is LCI's main backer, not S. G. Warburg & Co.

THE LESS-THAN-GENTLE ART OF BUSINESS IN CHINA

Regarding your article "How Mercedes trumped Chrysler in China" (International Business, July 31), BUSINESS WEEK did an excellent job reporting the difficulties that companies face while doing business in China. When handling the country's business affairs, the leadership in China seems to implement the same "strong-arm" tactics that they use when handling internal problems and external political affairs.

The leaders of China should take note that a growing number of nations, India being the most important, are emerging as ideal alternatives to their country for low-cost production facilities and substantial local markets. If China's leaders continue to conduct their business affairs like bullies, Western business will have little choice but to consider safer and better alternatives.

Jerome R. Bulkan
Margate, Fla.

NO ROCKET SCIENCE—BUT A GREAT INVESTMENT TIP

I was pleased to see the article Lee Kopp, "No rocket science, j stratospheric returns" (Finance, J 31). It was about two years ago t BUSINESS WEEK ran an article on K entitled "Is Lee Kopp the next Pe Lynch?"

That article motivated me to m some investments from blue chips i Kopp's excellent care. In the 21 mon that have passed since I establish my account with Kopp, the value more than doubled.

Needless to say, I'm quite plea with Kopp Investment Advisors a with BUSINESS WEEK for alerting me him. That one article has more t paid for a lifetime subscription.

Brett Sal
Atla

CROSSED SIGNALS ON SATELLITE PHOTOS

Your article "Satellite photos: from the cold" (Up Front, July should have been accompanied b better illustration. Unfortunately, instrumentation you showed in y photograph is used for radio astro my, returning faint signals from gal ies, quasars, neutron stars, black ho and the like—but not satellites. ought to check your photo libr more carefully.

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HOULD WE PRAISE IAGGIE OR BURY HER?

Ask Britons what they think of former Prime Minister Margaret Thatcher, and you won't get h waffling. Half of them think she ks on water—for using economic ek therapy to save Britain from -terminal decline. The other half de- e her—for favoring business over workers and for slashing the social ty net.

nyone seeking a final judgment on Thatcher era faces the problem of ding which view is correct. The h is, both are. In his book, *The Dis- hanted Isle: Mrs. Thatcher's Capi- st Revolution*, Charles Dellheim ful- grasps this dichotomy. A sort of han's guide to Thatcherism, its 400 es neither praise nor bury Thatcher. Dellheim, an American who teaches ish history at Arizona State Uni- sity, does come up with a clear mes- e: Margaret Thatcher was neither ood as her fans suggest nor as bad ner detractors insist. She was right the time.

his is not her life story. For that, might pick up a copy of Thatcher's recent tome, *The Path to Power*, ugh you'll still need Dellheim's book ll in the gaps left by the Iron Lady's ctive memory. Dellheim begins in , 1945, when Winston Churchill, tcher's favorite politician, lost the eral election just weeks after win- g World War II. Voters installed ment Attlee's Labor Party, initiat- one of the biggest acts of self-delu- in history: The debt-ridden nation eeded to make huge capital invest- ts in social services while spending rmously on the military machinery essary to maintain an empire.

Britain's socialists created the Na- al Health Service and built vast pub- housing tracts. Nationalized indus- s provided a sort of welfare—by ploying many more people than were needed and avoiding any new technology that might result in layoffs.

This situation, known as the "British disease," prevailed more or less for the next 35 years—even after the Conservatives returned to power. By the summer of 1976, chronic inflation, labor unrest, and low productivity led to a run on the pound that necessitated an International Monetary Fund bailout of Britain. And in the 1978-79 "winter of discontent," some 20% of the country went on strike.

It was about this time that Thatcher, a grocer's daughter raised in a modestly middle-class and very strict Methodist home, rose through Conservative ranks to topple then-party leader Edward Heath. For nearly 12 years, from 1979 till her ouster in November, 1990, the Iron Lady dominated British politics. As Dellheim shows, she had no master plan when she came to office. But with inflation at a runaway 22% and unemployment at 15%, her first few budgets were like a cold slap in the face: huge spending and tax cuts, reduced subsidies, an end to exchange controls, and tighter monetary policy. Like her ally Ronald Reagan, she stuck to some simple concepts: break the back of the trade unions and privatize industry. She scored high on both counts.

Dellheim suggests that privatization is Thatcher's greatest legacy. Some 100 companies were cut loose during her time. The move rejuvenated industry, adding a corps of newly competitive and profit-oriented businesses, and created widespread equity ownership. Britain again became attractive to foreign investors.

But in an attempt to show how Thatcher's revolution changed British business, Dellheim misfires. For example, he devotes a chapter to investment bank Morgan Grenfell & Co., which had a prominent role in the 1987 Guinness PLC stock-manipulation scandal. The episode is offered as an example of capitalism gone awry. But if Thatcher is to be held responsible for criminal misdeeds, Dellheim must show where regulators fell down on the job or at least must make a clear connection between her policies and the Guinness affair, which didn't involve any of her favored entrepreneurs or political allies.

Dellheim also doesn't devote enough space to Thatcher's regressive poll tax, which was to be her Waterloo. Convinced that, as a female politician, she couldn't afford to seem irresolute or uncertain, Thatcher refused to back down on the fatally flawed tax and hastened her own political demise.

Dellheim in the end argues that Thatcherism was one-dimensional. She may have whipped the trade unions, but she did little to improve the lot of most workers. Her privatization lifted the dead hand of the state, but not enough thought went into regulating utilities' transition from public to private monopolies—or regulating their monopoly profits.

The prevailing attitude in Britain today is that Thatcherism's rejection of communitarian values went too far and that the glue of society may be dissolving. But economically, Britain is doing well. It is in the midst of an export boom, and its inflation rate is the lowest in 25 years. It has one of Europe's lowest jobless rates and its most solvent public sector. It's doubtful any of this would be true without Thatcher.

Love her or hate her, you have to agree that Thatcher left an indelible stamp on Britain's, even the world's, psyche. This book's greatest contribution may be in helping the British themselves understand what it was about Thatcherism that got them back on their feet and why they're ready to move on to the next -ism, with no regrets.

BY PAULA DWYER

Dwyer is BUSINESS WEEK's London bureau chief.

THE IRON LADY HELPED RESCUE THE ECONOMY BUT MAY HAVE SUNDERED SOCIETY

BY STEPHEN H. WILDSTROM

EASING THE PAIN OF AN UPGRADE

Unless computer manufacturers have made one of the worst marketing guesses since New Coke, millions of people will be replacing their computers this fall. Many of them are in for an unpleasant surprise.

The problem is not setting up a new computer, which is easier than ever. But you almost certainly will have programs and data that you will want to transfer from your old machine to your new one. Alas, there is no simple way to do this. And upgraders face the additional challenge of moving to Windows 95 from older versions of Windows.

In the good old days of DOS and tiny hard drives, setting up a new machine was simple. You put your old programs and files on a bunch of floppy disks and installed them on the new computer. On Macintoshes, it's still about that simple, though on either a Mac or a PC, you'll want to connect your machines by cable to avoid dealing with an avalanche of floppies.

HIDDEN BITS. Windows programs are particularly difficult, however. They tend to hide vital bits and pieces of themselves all over your hard disk. As a result, most applications won't run if you just copy the contents of the program directory from one machine to another.

You could install all of your original software on the new machine and start clean. But even if you have all of the disks you need (you did keep them, didn't you?), this method would leave you at square one, without any customized touches you may have added—and without some vital data. There goes your whole financial history stored in Quicken.

There's no way to make such transfers painless, but there are tools that can help. The best method is to hook up the old computer to the new one and use file-transfer software. My favorite method is LapLink for Windows from Traveling Software Inc. (800 343-8080). The $100 program comes with special cables that allow you to connect your computers using either serial or printer ports.

A second useful tool is UnInstaller 3 from MicroHelp Inc. (800 922-3383). This $40 utility's "transfer" function lets you bundle the pieces of a Windows application into a single file and then installs the components properly on a second computer. It doesn't get all of the pieces all of the time, but it's a big help.

Here's the procedure I'd use to set up a new Windows computer from my old one. It's a little tricky, so bear with me. Connect the computers with LapLink. Then, use UnInstaller to pack up the programs on the old computer. Use LapLink to send over the packed-up programs along with directories containing data such as spreadsheets or word-processing documents.

DO NOT TOUCH. Be careful not to transfer three directories that could really mess up a new machine, especially one loaded with Windows 95. One directory holds the program components for Windows, another holds DOS. The third is the "root" directory, usually C:\, which contains the autoexec.bat file that started up your old computer.

Some of your Windows-based programs still might not run on your new computer after they've been unpacked. If that happens, you'll have to run the "setup" or "install" program from your original disks to get these working. (If you've lost the disks, most publishers will send replacements if you mail in the cover of your manual.) In general, this method will preserve the customized touches you've selected.

It's too bad that such a common chore is this complicated. It would seem to offer a sure-fire business opportunity for retailers who wanted to offer upgrade service or for a software publisher with a program to automate the process. But I haven't heard of anyone jumping into the market. If you have a tip to make it easier, send it to me, and I'll share it here or in BUSINESS WEEK Online on America Online.

BULLETIN BOARD

HARDWARE

MAC STUDY BUDDY

Any college-bound computer shopper would be hard-pressed to find one better suited to dorm life than Apple Computer Inc.'s new Performa 5200 series. The compact PCs cram all of the innards into a

unit barely bigger than a normal 15-inch monitor. Standard features include a 75-megahertz PowerPC processor, 8 megabytes of memory, an 800-megabyte hard drive, and a CD-ROM. Under a special Apple promotion, college computer stores are offering the 5200 for as little as $1,750. An adapter allowing direct connection to campus networks costs $100.

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CompuServe Inc. is ending one of its more annoying practices: a surcharge on mail sent to subscribers from the Internet. Customers can also choose a name instead of such cryptic addresses as 74774.173@compuserve.com for Internet correspondence. Prices are down, too, bringing them closer to competitors'. The $9.95 monthly fee now includes five hours of service, with additional hours at $2.95. The change will cut fees for most, but subscribers who use a lot of "basic" services, including stock quotes, may face higher charges.

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BY RUDI DORNBUSCH

AND YOU THOUGHT SOCIAL SECURITY WAS IN TROUBLE...

TIME BOMB: Canada, Italy, and Japan face retirement obligations several times more onerous than the U.S.'s. One solution? Mandatory private savings

Rudi Dornbusch is professor of economics and management at Massachusetts Institute of Technology

This fall, Congress will try to ax budget deficits that loom as far as the eye can see. Without such action, the Congressional Budget Office projects that rising medical expenses and a shrinking social security surplus will, by 2005, widen the deficit to 4.1% of gross domestic product and the ratio of debt to GDP will climb to 60%. Balancing the budget would make room for more investment and reduce the chances that financial markets will have to shoulder the burden of heavy deficit financing. What's more, balancing the budget need not create a slump or a recession. True, the government will spend less, but interest rates will fall, and private spending will take up the slack.

America's fiscal problems sound ominous, but there is a surprise: With respect to its finances, the U.S. is one of the healthiest economies. Many other major industrial countries face a far greater challenge in meeting future pension and social security obligations two decades or so hence. There is widespread concern about the size and growth of the U.S. debt, but until recently, little attention has been paid to "off the books" debts of other nations.

INVISIBLE CLOUD. These hidden debts arise from retirement obligations in countries that have rapidly aging populations. When a large cohort of the population is relatively young, more people pay into government retirement systems than withdraw funds. But when that group starts to age, cash flow eventually turns negative. Calculating the net present value of these future liabilities requires many assumptions, but it can be done. Recent estimates from the Organization for Economic Cooperation & Development show an astounding problem on the horizon for many industrialized nations.

Here are some conservative estimates: In Canada, the ratio of public debt to GDP is near 100%; net future pension liabilities amount to another 100%. Italy's already huge debt ratio is overshadowed by pension liabilities of an additional 113% of GDP. Finally, in Japan, where the debt ratio is moderate, public pensions coming due account for 110% of GDP. In the U.S., the corresponding liabilities amount to only 31% of GDP.

The problem can be traced to a number of factors. First, the active labor force that contributes taxes for future pensions will decline relative to beneficiaries. This effect will come into play between 2010 and 2030, fi in Japan, where aging will occur soone then in Europe. The second factor is th longevity has risen around the world, b people aren't working longer years in m countries. Hence, their withdrawals from pu lic pension accounts have risen even thou their contributions have not. Declining bi rates in industrial countries are also slo ing the retirement revenue stream. La legislatures were overly generous when t pension schemes ran surpluses over the pa 30 years.

PRIVATE POOL. With future liabilities so mi bogglingly large, some people argue th these pensions will never be paid. That's n likely to happen, though, since an aging so ety also means an aging electorate. So h might the obligations be met? Taxes could raised on future generations, but tax lev are already high—and hiking taxes is unpo ular and unproductive. Another possibility to find a way to phase in later retireme Still another option for the industrialized tions is to turn toward their less develop neighbors and borrow from them: Brazil, C na, Mexico, and other countries with you populations will have high savings that co be invested in the paper of industrialized tions. Yet while such efforts might amelior the problem, they won't solve it.

Two things must be done. First, the ac mulation of ever-growing liabilities must contained. Second, savings in these indus alized nations must be increased sharply— only by cutting government spending also by raising private savings. The best w to accomplish this is via mandatory priva savings schemes, such as those in Chile a Singapore, where households must set asid significant portion of their income for reti ment and disability. But rather than paying to the government in taxes, these savi should be placed in qualified accounts un private management. Thus, private saving not automatically diverted to finance bud deficits.

Without a buildup in public and priv savings, expect a crunch in world cap markets. Major governments will be forced borrow huge amounts to finance pensio and interest rates will be driven sky-hi Fortunately, there is enough time for poli makers to figure out how to avoid suc scary encounter with capital shortage.

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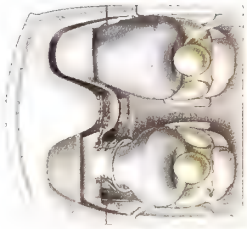

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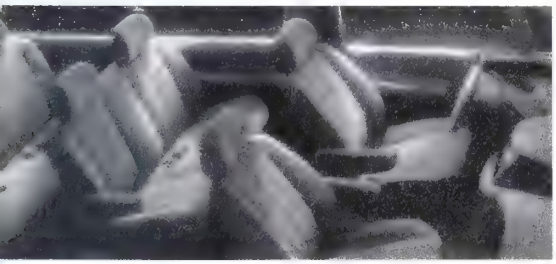

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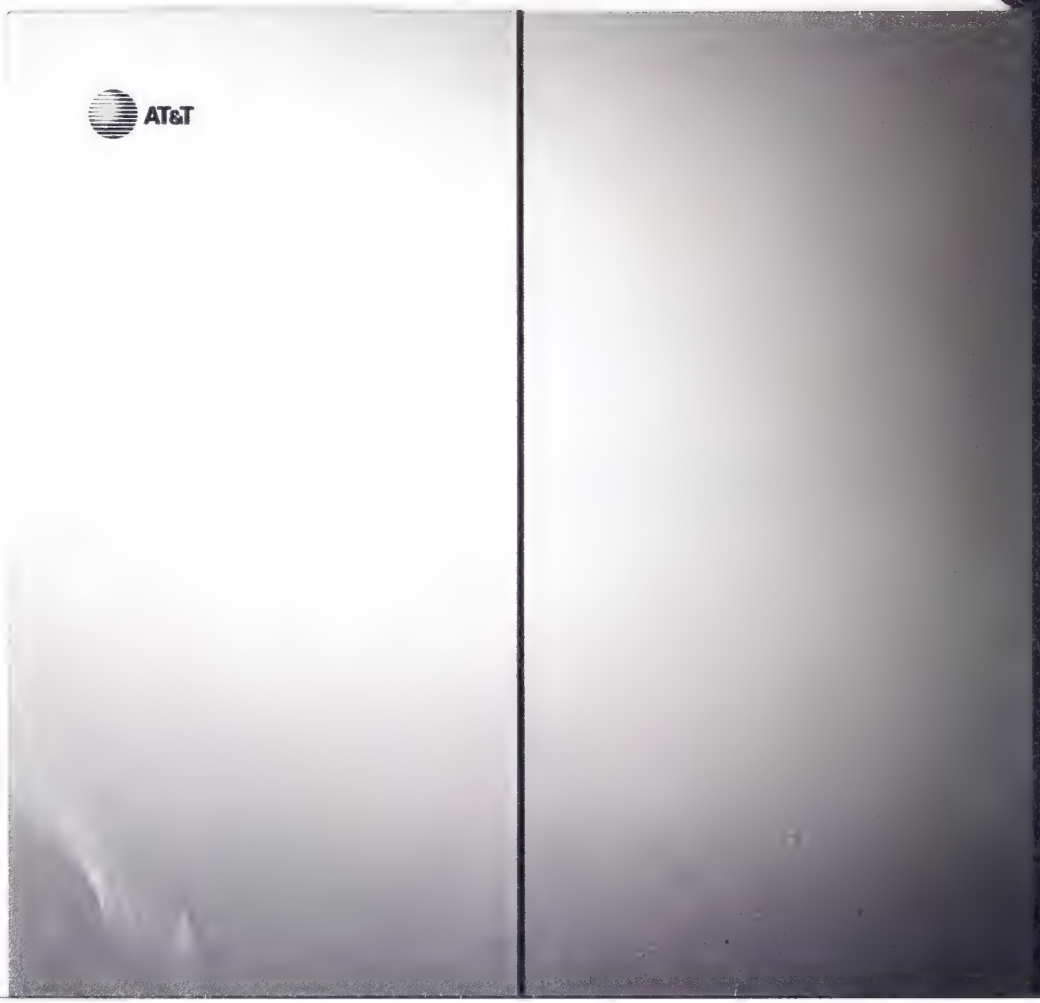

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BY GENE KORETZ

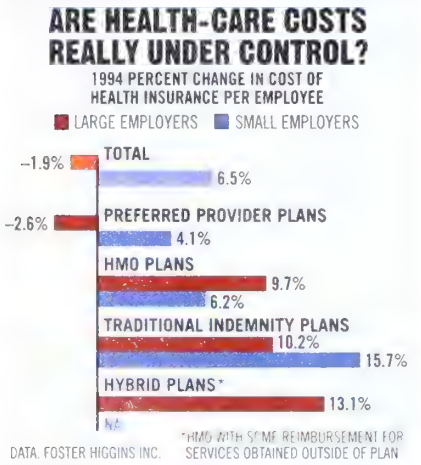
LOOK AGAIN AT MEDICAL BILLS

The recent U.S. dip may not last

The history of health care in America is riddled with false or short-lived victories over rising medical costs, as exemplified by Health & Human Services Secretary Margaret M. Heckler's assertion in 1984 that the U.S. had slain the health-care-cost monster. Is the nation currently undergoing a similar episode of self-delusion?

That's the question raised by Princeton University economist Uwe E. Reinhardt at a recent colloquium. Although he would like to believe health-care spending has entered a permanently slower growth track, he finds the available evidence "too crude and confusing to support that hopeful hypothesis."

Take the widely cited results of Foster Higgins Inc.'s annual nationwide survey of employers, released earlier this year. The benefits consulting firm found that average health-benefit costs per employee dropped 1.1% last year—after two decades of such costs' outpacing inflation. "Employers did not wait for the government to solve their cost problems," said a Foster Higgins spokesman. "They seized the initiative through use of managed-care plans and other cost-management techniques."



The report, however, contains some interesting anomalies (chart). As Reinhardt notes, the premiums of most types of health plans actually rose last year. The sole exception was a 2.6% dip in premiums paid by large employers to preferred-provider plans, where employees must use doctors and hospitals within the plan's network. And in that case, the drop followed a 10.6% rise in 1993.

Thus, as Foster Higgins itself noted, much of the 1994 decline in average costs reflected a one-time saving from moving out of high-cost plans. Many large firms, says Reinhardt, apparently shifted from traditional indemnity insurance to lower-cost managed-care plans.

The problem is that such plans are still undergoing hefty cost hikes, as last year's 9.7% increase in HMO premiums for large employers demonstrates. And for small companies, health-care costs accelerated, almost across the board.

In short, says Reinhardt, "the jury is still out on whether managed care can do more than temporarily slow the spending surge fueled by high-cost technology and an aging population."

HOW JAPAN PERKS UP PRODUCTIVITY

ESOPs and bonuses goose output

It's well-known that Japan's workers receive a large chunk of their pay in the form of bonuses keyed to company profits. Less well-known is the rapid growth of Japanese employee stock ownership plans (ESOPs).

In a study of Japanese manufacturing companies from 1973 to 1988, economists Derek C. Jones of Hamilton College and Takao Kato of Colgate University weigh the impact of bonuses and ESOP plans on productivity. Since 1973, they note, the share of publicly traded Japanese firms that have ESOPs has jumped from 61% to more than 90%. By 1989, the average nonexecutive employee's stake, including matching funds from employers, came to nearly $14,000.

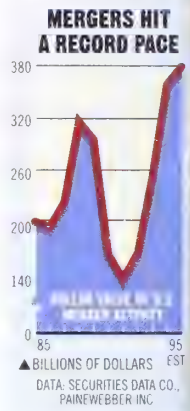
The researchers found that both bonuses and the introduction of an ESOP had positive effects on productivity, but the impact of ESOPs was far more potent. In general, companies setting up an ESOP reaped a 4% to 5% boost in productivity, usually after three to four years. By contrast, a 10% increase in employee bonuses, relative to the bonuses of competitors, resulted in only a 1% rise in productivity in the following year. ESOPs also appeared to enhance the productivity effects of bonuses.

Such findings, conclude Jones and Kato, suggest that both bonuses and the growth of ESOPs made significant contributions to Japan's outstanding productivity gains in recent decades.

BEHIND BANKS' BRISK LENDING

Businesses borrow for buyouts

It may well be the mother of all me ger booms: From January throu June, 1995, notes economist Maury Harris of PaineWebber Inc., U.S. me gers and acquisitions (M&As) hit $1 billion—a record for a first half.



The M&A boom helps explain what has been an anomaly to some economists this year: the strong surge in banks' commercial and industrial loans—at a time when inventory growth was presumably starting to slow. Bank loan officers recently told the Federal Reserve that M&A loans were one of tw leading factors behind their brisk lendi

The upshot, says Harris, is that ba business-loan data could give off m leading signals. If M&As pick up mo steam, as they have in every second h for the past 10 years, they could bu loan demand even as spending on inve tories and capital goods slows—sugge ing that real economic activity is stro er than it is.

A STALL IN LIFE EXPECTANCY

Oddly, America is losing ground

In assessing a nation's economy a health system, observers often lo at longevity. By that standard, the U has apparently lost ground in rece years. According to estimates prepar by the Metropolitan Life Insurance C expectation of life at birth failed to r last year—after falling from 75.8 to 7 years between 1992 and 1993.

Dips in U.S. life expectancy son times occur (the previous one was 1980) and are usually linked to dise outbreaks, such as the two flu epidem in 1993. But two years of no progress rarer—and potentially worrisome. though the current hiatus is likely be brief, it will provide ready ammu tion for critics of the growing gaps America's health system.

JAMES C. COOPER & KATHLEEN MADIGAN

N ECONOMY HAT'S JUST RIGHT

U.S. ECONOMY

Last year, it was called the Goldilocks forecast: an econo- not too hot, which would fuel inflation, and not cold, which would cause a recession. Although the ond quarter could have used a few seconds in the rowave, the economy now seems headed for that -right mix of moderate growth and low inflation t the Federal Reserve has been aiming for.

'he economy is escaping last quarter's chill without ing damage because businesses were quick off the k in adjusting their inventories, which had started grow too fast as demand slowed. Now growth ap- rs to be rebounding, but as the July price indexes w, not so fast as to raise inflation worries.

Latest data suggest that the inventory correction, while not yet finished, will run its course by summer's end. For example, after declining through the second quarter, industrial production remained weak at the start of the third quarter. Slower output is thinning out stocks, clearing the way for better growth in output and jobs later in the year (chart).

Resilient—if slower—demand is a key reason why inesses are adjusting their inventories so fast. De- e last quarter's weak economic growth, overall de- nd maintained a respectable pace. And in July, retail s began the quarter at a level higher than their sec- -quarter average.

'he same was true for housing starts. They jumped % in July, to an annual rate of 1.38 million, well ve their second-quarter average of 1.28 million. e activity was revised to show a gain instead of a ht decline. A stronger housing sector is lifting sales ome-related durable goods.

Builders maintained their optimism into August. The tional Association of Home Builders' housing-market ex—comprising builders' assessments of current s, expected sales, and buyer traffic—rose in August he highest level in a year, with all three components wing gains.

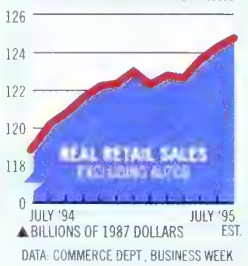
CAUSE THE INVENTORY ADJUSTMENT has a bit ther to run, industrial production will recover only wly. In July, output in the nation's factories, utilities, mines rose 0.1%, the first increase since February. huge 3.6% jump in utility production, however, reflecting heavy use of air conditioners during the month's hot weather, exaggerated the increase. Output in manufacturing alone fell 0.2% in July. Factory production has not grown since January.

Cutbacks in the auto industry, where a big chunk of the needed inventory correction is concentrated, continued to take a toll on output. A 3.2% fall in the production of motor vehicles and parts accounted for all of the July decline. And since March, Detroit's slower production lines have directly accounted for two-thirds of the drop in factory output, and that doesn't include indirect effects on other industries.

The pace of car buying this summer will determine whether Detroit has to make further cuts. Car sales tumbled in July, but even so, inventories of U. S.-made cars and light trucks ended the month at a 62-day supply, close to the desired 60 days. As it stands right now, August car production is picking up, which will give a lift to the month's industrial output.

WEAK CAR SALES notwithstanding, retail buying continued to look healthy in July. Retail sales dipped 0.1% in the month, but excluding cars, purchases of goods climbed 0.4%. Also, overall sales in both May and June were revised upward. Sales of durable goods other than cars have posted solid gains in recent months, especially furniture and building materials.

Despite the weak July showing, the third-quarter pace of real retail sales—adjusted for inflation—is already faster than it was for the second quarter (chart). Since retail sales are half of all consumer spending, households appear ready to make at least a moderate contribution to economic growth this quarter.



August sales bear watching, though. Reports from department and chain stores so far are not encouraging. Sales in the first two weeks of the month are down 1% from July, according to a survey by the *Johnson Redbook Report*.

For now, at least, the early-quarter combination of weak output but good gains by nonauto retailers suggests further slowing in the pace of inventory growth, which acts as a drag on the economy. Business inventories in manufacturing, wholesaling, and retailing rose a slim 0.2% in June, the smallest increase in more than a year. With demand growing faster, the ratio of invento-

ERIC HOFFMANN/BW

ries to sales has declined two months in a row, another sign that businesses are getting a better handle on their stockpiles.

GIVEN THE NEED TO MOVE overstocked merchandise quickly, it is hardly surprising that inflation remains timid. Consumer prices edged up just 0.2% in July, and their yearly pace has maintained a low 3% trend for more than two years. Producer prices of finished goods, flat in July, have not risen since April.

But with the expansion still going and with a low unemployment rate, will the U. S. continue to enjoy such a stellar inflation performance? Right now, at least, there is little evidence to suggest otherwise.

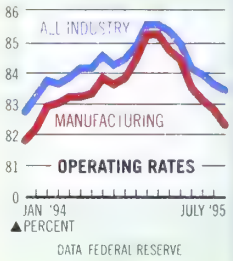
Yes, unemployment is low, but wage growth is lower, and unit labor costs, the key determinant of prices, rose at a puny annual rate of 0.6% in the second quarter. By yearend, the shift to the new chain-weighted gross domestic product will result in a lower measure of productivity growth and faster unit labor costs. But even the revised growth in unit costs should be below the rise in prices.

In addition, the slowdown in GDP growth for all of 1995 means the economy is probably below its full-potential level of output—when all resources are in use. That's why the jobless rate is likely to rise in coming months. And the underutilization of capacity means producers will have less freedom to raise prices.

Operating rates are already falling, along with pr duction (chart). Total industry used only 83.4% of its c pacity in July. That's down from 83.6% in June an from 85.5% at the start of the year. For manufacturer utilization rates fell to 82.3% last month, down fro 82.8% in June and 85.2% in January. The easing of c pacity use means that producer prices, still rising onl 1.8% yearly, may slip even lower in coming months.

Slack demand has hit the makers of intermediate materials and supplies particularly hard. In the second half of 1994, high demand enabled materials producers to boost prices by an average of 0.5% per month, and operating rates for primary processors hit a 22-year high of 90.8% in December. But with output-cutting manufacturers needing fewer supplies now, capacity use dropped sharply, 85.8% in July, and price increases have averaged 0.1 in the past three months.

CAPACITY PRESSURES RECEDE



DATA: FEDERAL RESERVE

For the most part, the current combination of mode growth and low inflation supports the idea that t fabled soft landing is coming true. And while this eco omy will not live happily ever after, it should at lea live contentedly well into 1996.

GERMANY

THE BUBA BACKS THE STATUS QUO...FOR NOW

In its first meeting after the summer recess, Germany's Bundesbank decided on Aug. 10 to leave interest rates unchanged. So for the financial markets and the 3.6 million unemployed Germans, the question remains: How long will the Buba be able to defend the status quo?

Perhaps not very long. The latest economic data for June looked weak, in part because of a slew of holidays that depressed industrial activity, retail sales, machinery orders, and auto output. Moreover, Germany is switching to new data-collection methods that are skewing seasonal adjustments and delaying some reports. But the Buba's Aug. 15 economic report said that, data problems aside, the recovery continues, helped by rising domestic demand.

GERMAN INFLATION HEADS LOWER

DATA: DATASTREAM INTERNATIONAL

By its Sept. 7 meeting, the Buba will have the first- and second-quarter reports on gross domestic product. Expectations are that real GDP grew at an annual rate of between 2% and 2.5% in the first half of 1995, following a growth rate of 2.3% in 1994. That pace may be mild enough for a cut in the discount rate, which was last trimmed on Mar. 30, to 4%.

The Buba's hesitancy may come from the mixed news on inflation. Consumer prices rose 2.3% in the year ended in July, down from 2.4% in June (chart). June import prices fell 0.2% and were unchanged from a year ago. And an important inflation gauge, the M3 money supply, is hardly growing.

But producer price inflation rose to a three-year high of 2% in June. And the currency has weakened of late: Thanks to intervention by the major central banks, the mark traded at only 1.476 to the U. S. dollar on Aug. 15—a six-month low. The cheaper mark, while good for Germany's export outlook, may lift import prices.

The Buba is sure to ease gradually. In early August, the bank began to allow its securities repurchasing rate to slip. The rate was 4.45% on Aug. 16. That move suggests that, in the absence of price pressures but with 9.2% of Germans unemployed, the central bank is paving the way for another rate cut by the fall.

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HOLLYWOOD

Eisner and Ovitz are Hollywood's dream team–if they can coexist

Since he's not telling, we may never know exactly what made Michael Ovitz throw in his lot with Walt Disney Chairman Michael D. Eisner on Aug. 14. But insiders say it was clear Hollywood's premier power broker wasn't long for the talent agency business. In June, amid media fanfare, Ovitz walked away from a $250 million offer to run MCA Inc. for friend Edgar Bronfman Jr. After that, he seemed oddly troubled, say sources at mighty Creative Artists Agency Inc. "You could see it in his eyes," says one top CAA agent. "His phone calls were down by half, he was canceling lunches. He just looked like he didn't want to be here any longer."

Did Ovitz somehow feel diminished by failing to get the control he sought from Bronfman? Was he simply burned out by the pedestrian demands of superagency? Why, ultimately, was he willing to accept what nobody thought he would: the No. 2 position at another entertainment company?

RUTH AND GEHRIG. To dwell long on these issues is to miss a larger point: When a man as shrewd as Michael Ovitz jumps to a company such as Walt Disney Co., it says more about the company than it does about him. The message is that Eisner's $19 billion bid July 31 to buy Capital Cities/ABC Inc. has fundamentally altered the competitive landscape of the entertainment industry. Disney now provides Ovitz a much more powerful perch than CAA or MCA. Together, the two Michaels have the chance to dominate their peers in a way nobody dreamed possible only a few weeks ago. Says Harvey Weinstein, co-chairman of Disney's Miramax Films unit: "Mike Eisner is Babe Ruth, Mike Ovitz is Lou Gehrig, and Disney is the 1927 Yankees."

Indeed, the teaming of Eisner and Ovitz raises the stakes for everybody else. That's why Bronfman is furiously courting Warner Brothers Inc. co-CEO Terry S. Semel to run MCA, even though he just hired Ovitz' CAA partner, Ron Meyer, as president. It's also why there are so many questions surrounding Westinghouse Electric Corp.'s bid for CBS I "The fact is, the list of people capable running a major entertainment compa is not large," says former Fox Broa casting Chairman Barry Diller.

Making Disney/ABC a world-beater not just a $19.3 billion entertainme company—will take all the talent Eis and Ovitz possess. And though they been friends for 25 years, success w

MICHAEL OVITZ
Named Disney president

STRENGTHS

MASTER NETWORKER Knows and is liked by the talent Disney needs; wields power gracefully

INDUSTRY ANTENNA Understands nuances of the entertainment business and of Disney's competitors

TRADITION-BREAKER From technology to advertising, he is willing to push boundaries

WEAKNESSES

WEAK ON CREATIVITY A dealmaker first and foremost, he's less comfortable turning scripts into movies

OVERLY METHODICAL He can overthink a situation and miss opportunities in trying to manage outcomes

LACK OF EXPERIENCE A great agent, but he has never run a large entertainment business

DISNEY: ROO FOR TWO LIO

BUDDY PICTURE: *Ovitz and Eisner have been friends for 25 years*

Ovitz possess a rare and complementary blend of skills that is particularly well-suited to maneuvering through the industry's shifting sands. Moreover, they're both smart enough to know that their own best interests are tied to smooth sailing at Disney. "Sure, egos will clash," says investment banker Herbert Allen Jr. "But these aren't 14-year-olds. They know how to deal with it."

"TERRIFIC DIPLOMAT." Eisner, who suffered through a year of heart problems, executive defections, and the death of his close friend and president, Frank G. Wells, certainly thinks so. "The last year just wasn't much fun," he says. Now "I have a partner again, someone I can bounce things off of."

Officially, Ovitz will be in charge of Disney's three major businesses—film, theme parks, and consumer products. As the new Disney/ABC moves forward, though, his particular set of skills will be crucial in broader ways. The company has three key challenges: It must boost its international presence, create links between far-flung units, and figure out how to proceed as technology transforms both the creation and delivery of Disney's programming.

To address those issues, Ovitz brings with him the best Rolodex in the business and a keen sense of how the industry works. "There's no one who won't take this guy's phone call," says Alan F. Horn, CEO of Turner Broadcasting System Inc.'s Castle Rock Entertainment. Perhaps most important, though, is his ability to build coalitions and steer divergent groups toward a single goal. That will be essential as Disney tries to meld with ABC. Ovitz is masterful at making people feel O. K., even as he applies the screws. "He's a terrific diplomat," says Viacom Chairman Sumner M. Redstone. "He's been tough with the movie industry while appearing sweet and gentle."

Great diplomacy is not something Eisner has ever been accused of possessing. Friendly and jovial in public, within the company he can be chillingly frank and tight with cash and control. Whereas Ovitz is known as a patient dealmaker—sometimes deliberate to a fault—Eisner is quick to walk away from the table. He would own Geffen Records today had he not refused to give founder David Geffen a big chunk of Disney stock.

Nevertheless, the Disney chairman has what is known in the industry as a golden gut—an uncanny sense of what kinds of entertainment America will buy and how to expand the Disney franchise. Ovitz is an operator, not a creative force. But Eisner—from theme park rides to *Beauty and the Beast* on Broadway to new ways to merchandise existing characters—has turned gut instinct into Disney's flashy elevenfold earnings growth since 1984.

Ovitz clearly sees plenty at Disney he didn't see at MCA. While his 55% stake in CAA could fetch an estimated $50 million, insiders say, the seven-year deal he got from Disney—even loaded with stock options—is far less than the reported $250 million that Bronfman was set to offer him. That makes him a bargain for Disney's board: News of Ovitz' hiring drove the stock price up more than two points in two days, adding $1.1 billion in market value.

GUESSING GAME. Ovitz and Eisner took pains to assure that the new hire played as well inside the company. Eisner's top two executives, Sanford M. Litvak, chief of corporate operations, and Chief Financial Officer Stephen F. Bollenbach, will report to Eisner, not Ovitz. Joe Roth, who heads Disney's live-action film business, flew to Eisner's vacation home in Aspen, Colo., to discuss the deal before the papers were signed. "They assured me that this was my company to run, and they'd let me run it," Roth says.

Inevitably, of course, there will be rough patches. "Nobody will really know the fit for two years," says dealmaker Allen. Management chemistry, he says, is an uncertain science. In his defense, Ovitz asserts (somewhat lamely) that "I spent years working for someone else. All my clients were my bosses." Sitting on an adjacent stuffed chair in his spacious Burbank (Calif.) office, Eisner can't help but chime in: "I negotiated against you plenty of times, and you did pretty well for them." As dialogue, it isn't exactly *Casablanca*. But could it be the beginning of a beautiful business relationship?

By Ronald Grover in Los Angeles and Michael Oneal in New York

MICHAEL EISNER
Walt Disney chairman and CEO

STRENGTHS

GOLDEN GUT Has the priceless ability to know what people will buy

RELENTLESS MARKETER Brilliant at squeezing new revenue streams out of existing products

EYE FOR TALENT There's a dearth of talented executives in Hollywood; he's good at spotting the best

WEAKNESSES

CONTROL FREAK Described by some as jealous of powerful lieutenants; clashes with key subordinates over control issues

HARD-NOSED Such a tough negotiator, he can miss deals, such as the chance to buy Geffen Records

OVERSPENDER Can lay out too much to fund his own ideas, such as theme park attractions

INGS?

end in large part on how the two get
g as business partners. Ego and am-
on are core personality traits in both
, and Eisner, especially, is known as a
gh guy. Whether they can coexist pro-
tively is an open question.
That said, most rivals make plain that
is a formidable duo. Superman
ld be hard-pressed to live up to the
ng they've received, but Eisner and

MEDIA

AND NOW, WE PAUSE FOR STATION RE-IDENTIFICATION

Broadcasters are buying and selling stations at a frenzied pace

Growing up in Newark, N.J., Steven Dinetz was a fan of the radio station known today as WHTZ-FM. Now, the station fan wants to become station owner: Dinetz, CEO of Chancellor Broadcasting Co., in early August bid $395 million to add Z-100 and 18 other stations owned by Shamrock Broadcasting Inc. to his stable. Not bad for a company less than two years old. Stay tuned, says Dinetz, for a flurry of similar deals throughout the industry. The Chancellor-Shamrock merger is "just the tip of the iceberg."

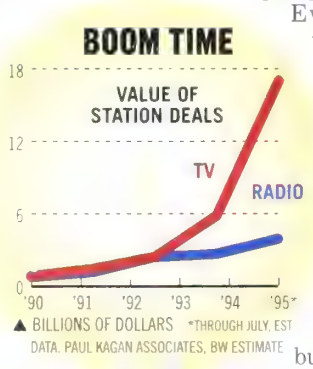
MURDOCH'S MELEE: *Fox's buying spree kicked things off*

Overshadowed by the proposed megamarriages of Disney with Capital Cities/ABC and Westinghouse with CBS, merger mania is crackling at an unprecedented pace across the radio and TV spectrum. For every TV station that comes on the market, 10 to 15 players are taking a hard look. Fueled by plentiful credit and a surging stock market, buyers are snapping up radio and TV stations at eye-popping multiples of 12 times cash flow or more—levels not seen since the junk bond-driven 1980s.

DEVILISH CHOICE. The buying frenzy promises to reshape the broadcast industry. Within a few years, 75% of the national radio audience may be served by just four major groups. Among the contenders: CBS, ABC, Infinity, Evergreen, Chancellor, and Clear Channel. A similar shakeout is expected among TV affiliates as well. Analysts and executives expect the major networks to keep on buying, along with Tribune Co. and Gannett Co.

Midsize players such as Meredith, Lee Enterprises, and Granite face a devilish choice: Pay up at ever-escalating prices, sit tight and pray the best stations aren't nabbed, or sell out. "We wonder about buying into the face of this market, but we're all afraid the good stations will be picked up," says Meredith Corp. Chairman Jack D. Rehm.

This eat-or-be-eaten attitude is driven by several factors. Rupert Murdoch's move to swipe eight CBS affiliates for his Fox Broadcasting Co. last year triggered a huge reshuffling of TV properties. Values soared as the other networks responded by expanding their holdings—and signing existing affiliates to rich 10-year contracts. "Murdoch's entry really stirred things up," says L. Lowry Mays, CEO of Clear Channel Communications Inc., owner of 36 radio and nine TV stations.



The Murdoch effect is still being felt. Days after Westinghouse and CBS agreed to merge, NBC picked up three small stations from Outlet Communications Inc. rather than let them go to Renaissance Communications Corp., which already had an agreed-on deal. The price: a steep $321 million, or $34 million more than Renaissance had offered. NBC paid another $20 million payment to Renaissance to settle resulting litigation.

Meanwhile, three strong years of advertising revenue, and the prospect of another in 1996, have sharply improved broadcast economics. And the real fillip looms large: deregulation. A 1992 radio law, triggering the first wave of mergers, allowed operators to own two AM and two FM stations in each town, and up to 40 stations; it appears that even those restrictions will be lifted. TV operators are likely to get their own version of a "duopoly" through ownership of VHF and UHF channels in a single market. More important, groups are likely to get approval to own stations that cover 35% of the country, up from today's 25% ceiling.

Buyers justify today's high prices by the resulting economies of scale, which in turn appeal to advertisers. For network owners, who are now allowed to produce and own the shows they air, more stations mean a bigger audience. The challenge for non-network owners is how to compete for more stations against the firepower of the networks.

The clout of multiple-station ownership is already clear in radio. Cincinnati-based Jacor Communications Inc. has captured roughly 50% of the local ad market by segmenting the audience for its four stations and through joint sales agreements with four others. "The ability to concentrate in a single market creates real value," says Jacor CEO Randy Michaels.

Jacor now owns 21 stations, and Michaels would love to expand. This spring, he was rebuffed by Evergreen Media Corp., which since spring has committed a staggering $557 million to buying 23 stations, largely in Top 10 markets. Now, given the run-up in prices, Michaels and others believe that stock mergers may be the only way "to do a rational deal." In a highly cyclical business like broadcasting, caution may be in order. "The moment of truth will come when the economy softens," warns Tribune chief broadcasting executive, James C. Dowdle. Until then, merger mania is likely to continue up and down the broadcast spectrum.

By Richard A. Melcher in Chicago and Stephanie Anderson Forest in Dallas

EEL HE BUZZ

n95's marketing blitz l be loud–and costly

ou'd think it was the computer industry's centennial celebration. On Aug. 24, Microsoft Corp. will unsh its long-anticipated Windows 95 rating system—and with it a market- and advertising blitz that could ke Revlon blush. Experts estimate nputer-industry spending will reach unprecedented $1 billion in the next r months, as everyone from Compaq mputer Corp. to Coca-Cola Co. gets on the Win95 act.

Get ready. The buzz ld be deafening. ere will be a fusillade Win95 television and nt ads and related rketing hoopla. Micro- says it will spend to $200 million over next year. Among its zier riffs: a 30-minute, work prime time fo show," starring 2.'s Anthony Edwards Microsoft Chairman liam H. Gates III. ere will be oodles of motions, including acker Jack boxes king Win95 prizes l discounts on plane kets with the purse of the new PC opting software.

IS EFFECT. The hype n't be limited to the S. In Britain, Micro- will paint fields with nt Win95 logos for wing by plane. In ris, it's throwing a h for 7,400 in the Pa- des Congrès. In To- to, it is unfurling a 300-foot Win95 ner down the city's tallest building, CN Tower. Says Alan C. Bush, pres- nt of the Computer City retail chain: s going to be like Elvis showing up Graceland after three months notice." Behind the pomp and circumstance, ugh, lies a campaign fraught with llenges. Microsoft isn't just shipping ew product to store shelves and stok- demand. As Windows goes, so goes PC industry, which will spend $1 bil- n by Christmas hawking new PCs, tware, and peripherals that take advantage of Win95. Ensuring that those products reach stores on time meant months of working with manufacturers.

PIER PRESSURE: *Win95 hoopla on Chicago's lakefront*

WIN95: SOME KEY NUMBERS

Microsoft's projected ad and marketing expenses for the first year
$200 MILLION

In-store demonstrations before Aug. 24 launch
1.2 MILLION

Win95 point-of-sale displays being put up
250,000

People invited to product launch parties scheduled in 40 cities
70,000

How-to-use Win95 books available by around day of launch
450

DATA: MICROSOFT CORP., BW

Corporate customers have been wooed, too. Over the past six months, Microsoft gave away 10 million demo disks of the program, tested the product with some 400,000 customers, and completed a 23-city tour in which Win95 was shown to 40,000 people. Why? Getting corporations to upgrade will be tougher than convincing home users.

By any measure, this will be a record-setter for the already hype-prone tech industry. Microsoft is expected to sell 29 million copies of Win95 by Christmas and 63 million copies next year, according to Dataquest Inc., compared with 33 million copies of Windows 3.1 in 1994. PaineWebber Inc. analyst Michael A. Kwatinetz figures Win95 momentum will boost worldwide PC sales dramatically: Growth should hit 20% this year and next, several points higher than previously anticipated. Add in other software sales—he estimates an average of $300 extra will be spent by Win95 buyers—and the total gold mine could be $20 billion in hardware and software revenues over the next year.

The publishing industry is already knee-deep in its own Win95 campaign. By early September, some 450 Win95-related books will hit store shelves. And computer trade publications? Eric Hippeau, chairman of Ziff-Davis Publishing Co., says his magazines have landed 1,984 pages of extra ads in the U.S. because of Win95, pushing the total for the year up 5.5%.

Retailers also expect a bonanza. The $209 operating software (or $109 for customers upgrading from Windows 3.1) will be in 20,000 stores come Aug. 24, including Wal-Marts. Many of them will take part in "Midnight Madness," opening stores at midnight on Aug. 23 for 95 minutes to sell the first copies of Win95.

"A HAPPENING." But the real fun begins the next morning. The company will host launch events in 40 U.S. cities—from a shindig for 2,000 at the Las Vegas Luxor Hotel to an all-day "fun fest" for 4,000 at Great America's theme park in Silicon Valley. In Chicago, Microsoft is creating a World's Fair atmosphere at Navy Pier with pavilions, carnival games, and a special run of 5,000 Cracker Jack boxes containing key chains and coupons for free PCs. For techies, the company plans an elaborate online launch event.

Then there's the company's prime time "info show," featuring Windows users, from students in Appalachia to the Las Vegas Cirque du Soleil. And, natch, Chairman Gates will give his vision of computing. The show will air on Aug. 27 and Aug. 28. The $5 million production and air-time cost will be shared by Microsoft and sponsors Coca-Cola, Kodak, Compaq, and CompUSA. Explains spokesman Bob Bertini of Coca-Cola's involvement: "This is a happening."

To say the least.

By Kathy Rebello in San Francisco, with Mary Kuntz in New York

WINDOW SHOPPING IN TOKYO: *A weaker yen will open wallets*

JAPAN

A BOLD CAMPAIGN TO END *ENDAKA*

The government's new rallying cry: Buy dollars, sell yen

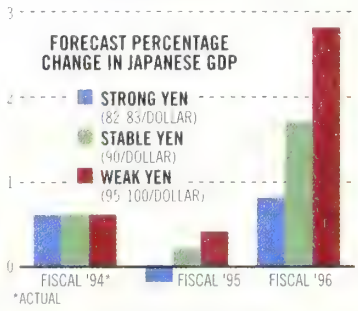
If anyone deserves celebrity status in the global currency markets these days, it's probably Eisuke Sakakibara. The head of international operations for Japan's Finance Ministry, Sakakibara is a brash economic nationalist. Now, he's using his clout in financial circles to shake up the ministry and pull Japan's economy out of its four-year slump.

Sakakibara's goal is simple yet daunting: Encourage trillion-dollar-a-day currency traders to buy dollars and sell yen, driving down the Japanese currency's value. The high yen hobbled Japan's export machine, thus aggravating Japan's deflationary spiral and pushing the country nearly into recession. So a more stable yen is critical to the country's growth (chart). To help achieve it, Sakakibara has been consulting regularly with U.S. Deputy Treasury Secretary Lawrence H. Summers and coordinating interventions in the currency markets by central banks.

So far, Sakakibara's plan is working. By Aug. 16, the greenback had soared to 98 yen, 24% above its 1995 low of 79 on Apr. 19. The turnaround might take a bite out of U.S. exporters' profits (page 33), but it's the kind of pill Japan's ailing economy needs. The superyen "was consigning Japan to quasi-stagnation," says Russell Jones, Lehman Brothers Inc.'s chief economist in Tokyo.

HELPING HANDS. Of course, Sakakibara had plenty of help. Well before he executed his game plan, the markets were primed for an about-face. Odds had improved that Washington would slash its dollar-weakening budget deficit. And Washington was becoming more conciliatory about trade—and more worried about Japan's economy. Perhaps most critical has been a shift in Clinton Administration policy, which had favored a soft dollar to pry open Japanese ma kets. Now, with the election loomin the White House wants a stronger do lar to drive down interest rates, boo the U.S. economy, and shrink Japar politically sensitive trade surplus.

HOW A WEAKER YEN COULD STRENGTHEN GROWTH



DATA SALOMON BROTHERS INC

The prospect of a weaker yen ha boosted the earnings outlook of Japar flagship auto and consumer electroni exporters. Every one-yen fall again the dollar generates an extra $300 m lion in pretax profits for Japan's top fi auto makers, reckons Lehman Brothe auto analyst Koji Endo. If the 20% ye depreciation holds for six months, ad J.P. Morgan Securities Inc. economi Jesper Koll, Japanese corporate profi overall could rise 12% to 24% in 1996

And the bulls are charging back in the stock market. The Nikkei averag soared 706 points to 18,158 on Aug. 1 up 27% from its low on July 3. Whi the index is still off 6% on the yea more than $14 billion in foreign mone has rolled into stocks since January.

Salomon Brothers Inc. economi Robert A. Feldman sees the weake yen propelling Japanese econom growth to a respectable 2.8% in fisc 1996 if the Bank of Japan keeps mon tary policy loose and the governme kicks in with an expected $106 billi spending package in the fall. A low yen should open the wallets of anxio Japanese consumers, whose spendir represents about 60% of the nation economic output. As the yen soare Japanese companies slashed cost crimped wages, and hinted at broad la offs. So consumers held on to their ye battering retail sales all year.

Sakakibara's blueprint could goos the economy even more if it pounds th yen further. For example, rule chang announced on Aug. 2 gave life insure more freedom to recycle more of the $18 trillion in assets into foreign-denor inated bonds. That would drive the ye down and aid Japanese exports.

But institutional investors may n buy. Life insurers remain squeezed b policies guaranteeing 4.5% returns whe their own investments at home are ge erating 2% to 3%. Also, many g burned as a soaring yen wrung the va ue out of their dollar-denominated i vestments in the past two years. Sma wonder the companies were bit playe in the just-completed auction of $40 b lion in U.S. Treasury bonds and note

Their comfort level may rise if S kakibara starts raiding Japan's publ savings pool to bankroll a Treasury bor

ing spree. His ministry's yen-cool-package promotes foreign bond purses by such institutions as its own st fund bureau. Morgan Stanley & economist Mineko Sasaki-Smith says he funds under the ministry's control ested 10% of their money in foreign ds, yen sales to buy the bonds would n the dollar up enough to lure life in-ers into the markets.

The downside of the yen rally is that akes the pressure off Tokyo to make ortant structural changes. On Aug. 15, Japan reported that its global trade surplus fell 23% in July, to $9.4 billion. As a result, Prime Minister Tomiichi Murayama's coalition government may fail to champion the kind of broad deregulation that would open up Japan's fortress economy. Over the long run, only fundamental economic reforms can return the country to the days of 4%-plus annual growth. Says J. P. Morgan's Koll: "Japan continues to be a high-cost producer with excessive employment and a fragile financial sector."

For now, though, Sakakibara has orchestrated a remarkable turnaround in the market and helped do away with his ministry's do-nothing image. Intense dollar-buying by Japanese trust banks, American hedge funds, and Asian central banks seems sure to keep the dollar moving upward in coming weeks. If so, Sakakibara's rescue scheme may give the Japanese economy the shot it needs to emerge from the quagmire.

By Brian Bremner in Tokyo, with Dean Foust in Washington

E DOLLAR

K., EVERYBODY— OLLOW THE BOUNCING BUCK

ings in exchange rates wreak havoc in a global economy

emember the racecar driver Jacques Villeneuve, who won the Indianapolis 500 this year? Given the thrills spills going on with the dollar lately, might fit right in with the currency-ing game. Just months after the dol-plunged 20% against the yen, it has ouped almost all its losses—cour-of the Federal Reserve, the Bun-bank, and the Bank of Japan. On morning of Aug. 15 alone, cen-banks pushed the greenback y 4%, to 98 yen, barely shy s level last December.

n part, the buck's quick ersal reflects a quiet policy ch by the Clinton Admin-ation: After months of ssuring Japan to open its kets, including letting the enback slide, the Administra-now appears eager to push dollar back up. "There's a desire ave a balanced approach," admits a or Administration official. The weak ar was also putting strains on the man and Japanese economies. "The S. stands to gain more from ex-s—from revived growth in Japan Europe—than it can from a lower ar," says Allen Sinai, chief econo-at Lehman Brothers.

CH ON PROFITS. The downside: se violent swings in exchange rates whipsawing an increasingly export-endent U. S. economy. It has been "a ride," sighs Ted French, chief finan-officer at Case Corp., a heavy-equip-t manufacturer. Multinationals such BM and Johnson & Johnson, which ed from the falling dollar, will now sales and profit growth depressed ing the rest of 1995. Economic wth, too, will suffer: The strong dol-means that foreign trade cannot be counted on to boost the economy during the coming year.

Moreover, this surge—which has driven the dollar back to its late-1994 level—will have a bigger economic impact than did its decline. When the dollar was falling against the yen and the German mark, it was also rising against the Mexican peso. But this time, the dollar is gaining against virtually every currency.

Big companies may take it on the chin. Corporate earnings in the second half of 1995 are likely to be pinched, as profits earned in yen or marks now translate into fewer dollars. Half of IBM's 14% revenue growth in the second quarter came from exchange-rate gains, and that may simply evaporate. Similarly, a chunk of Eastman Kodak Co.'s revenue gains earlier in the year came from the falling dollar. Plus, if U. S. exporters have a harder time making big gains over the next year—while importers sell more—the trade gap will widen. Economic growth may slow, too.

There are benefits, of course. Consumers will pay less for imported goods such as cars. And the price of computer memory chips—largely produced overseas—should come down, which will benefit anyone installing such memory-hungry programs as Windows 95.

HIGHER STILL? The stronger dollar isn't necessarily bad for multinationals, either. Case, for example, produces so much in Europe that it is a net importer. "The dollar can get stronger without negative consequences," says French. And a strong dollar may boost sales at Hewlett-Packard in the short run. The reason? Many overseas buyers will want to lock in orders before the dollar's value rises more. "Right now, a runup in the dollar is going to help," says Richard O'Brien, an economist at HP.

There's a further mitigating factor: U. S. companies still enjoy a cost advantage against many foreign competitors. The buck will have to strengthen by a further 8%, for instance, before Germany's Daimler Benz Aerospace can turn a profit. Says CEO Manfred Bischoff: "Costs have to come down again if we are to survive [in Germany]."

Having come this far, will the dollar climb even higher? Some economists think 130 yen per dollar is possible, especially if the U. S. budget deficit is cut further. So hold on tight, everyone: This day at the racetrack is far from over.

By Michael J. Mandel in New York, with Kevin Kelly in Chicago, John Templeman in Bonn, and bureau reports

DIGITAL IMAGING BY JAMES BLAUCHAMP/BW; CHART BY ALBERTO MENARIEW

TOBACCO STRIKES BACK

Cigarette makers' arguments against the Food & Drug Administration's proposed plan to discourage kids' smoking:

THE FDA HAS NO JURISDICTION Congress has rejected numerous laws calling for FDA regulation of tobacco. Moreover, in the past, the FDA has argued in court that it does not have regulatory authority.

A TOTAL BAN IS IN THE WORKS If it is declared a drug, tobacco must be shown to be safe and effective in order to be legally sold—a test it cannot pass. Thus, the FDA could be forced into a total ban by smoking opponents.

THE FDA IS OVERREACHING ITS AUTHORITY Restrictions on advertising may be based on an unusual, potentially shaky interpretation of medical-device law. The industry also will challenge on First Amendment grounds.

TOBACCO

THE FDA VS. BIG TOBACCO

If the focus stays on kids, the agency could win. That's a big "if"

As internal White House debates go, it was a real smoker. The issue: Should the Food & Drug Administration take on Big Tobacco? Vice-President Al Gore argued that the FDA's proposals to curb smoking by kids were the right thing to do. And tough action was just what President Clinton needed to remind Republicans and voters that he was still a force to be reckoned with.

But White House political mavens had trepidations. They worried that picking a fight with Joe Camel and the Marlboro Man would be tantamount to writing off the South in 1996—and cutting off life support to struggling Southern Democrats. Indeed, Representative Charlie Rose (D-N.C.) begged the Clintonites to back a voluntary industry campaign. But Gore, backed by Hillary Clinton, carried the day. "This has been an obsession of Al Gore's," says one senior Clintonite. On Aug. 10, Clinton granted FDA Commissioner David A. Kessler unprecedented authority to regulate the addictive weed.

Big Tobacco already has launched a concerted—and potentially risky—legal drive to poke holes in the plan. The FDA's scheme would severely limit tobacco advertising and marketing to kids, ban vending machines and self-service displays in stores and force the industry to warn children of smoking's dangers. But it is still only a proposal. The FDA must wait 90 days for comments, then spend months analyzing the flood of responses before it can issue final rules. Even so, the ink was barely dry on the FDA's 576 pages of proposed regulations and legal justifications when Philip Morris Cos., R.J. Reynolds Tobacco, and three other tobacco companies filed suit in North Carolina, challenging the agency's jurisdiction over tobacco.

BOMBS AND CANNONS. The industry will haul out plenty more weaponry in the months ahead. "They will fight in the courts, on the Hill, and for the hearts and minds of the public," says George Washington University law professor John F. Banzhaf III. The central message: An intrusive Big Government is trying to take away one of Americans' cherished rights. "The FDA's true goal is not to stop at restricting youth smoking but to ban cigarettes," charges R.J. Reynolds attorney Daniel W. Donahue.

To back up that accusation, companies are prepared to make a startling admission: Cigarettes really are dangerous. Under food-and-drug law, anything the FDA regulates as a drug must be declared safe and effective, explains Walker Merryman, vice-president of t Tobacco Institute. "They will have hard time doing that with tobacco," admits. After all, the aromatic leaf ki about 400,000 Americans a year. As result, says Merryman, "the FDA's or alternative is to ban it."

Proving that in court could have tw important consequences. It would l bare what the industry says is the FD true desire—banning tobacco altogeth And it would bring down the wrath Congress, which would never perm such a ban. The FDA recognizes the ri of being painted into such a corn That's why its strategy includes decla ing cigarettes a medical device—a dru delivery system—rather than a dru Medical-device law gives the agency f more flexibility than drug law.

But some legal experts think the dustry has a strong case anyway. "T court is going to let the agency do t half-step of simply regulating advert ing," says Lars Noah of University Florida College of Law. The reason li in arcane details of drug and medic device law. But in the past, the FDA h regulated many drug-delivery systems including nicotine patches—as drugs.

Some legal experts think the agenc case is riddled with other weakness (table). For example, repeated attemp to regulate tobacco have been rebuff in Congress and even by the FDA. "Fo former commissioners and three form chief counsels of the agency have sa the FDA should not regulate cigarette says Philip Morris counsel Marc Fi stone. "This is one of the most comp ling historical records I've seen."

Some skeptics suggest that the FD proposals are really a bluff. Becau

ency officials "don't really have the tutory authority, they must be count- on Congress to save them from hav- to issue final regs," Noah says. And Congress calls the bluff by not passing mpromise legislation, "Clinton may l up with egg on his face."

EWAY. FDA officials readily admit they uld be happy if Congress implement- much of the agency's plan. But a spiracy to punt? Not a chance. Legal erts point out that courts have given FDA great leeway to regulate in v ways to protect the public health. e're not bound to march in lock-step h past determinations, particularly h something as unique as cigarettes," says FDA policy official Mitchell Zeller.

What's more, argues antismoking advocate Myers, newly obtained tobacco-industry documents have supplied the FDA with key facts missing in the past. There's evidence that the industry intended cigarettes to be used as a drug-delivery mechanism all along. Company representatives often said as much. The companies have also often manipulated nicotine levels in cigarettes.

In the end, the outcome may hinge on the public-relations war. If the industry can successfully cast the FDA as thuggishly trampling on cherished American rights, it could deflect tighter rules on advertising and marketing. "I highly doubt any of this will go through," predicts Jack Maxwell, managing director at Wheat First Butcher Singer Inc. in Richmond, Va.

But if the Administration can keep the focus on protecting kids, Big Tobacco has a problem. New rules may be one more blow to an industry already losing ground in tort cases and public-opinion polls. The effect: modest declines in U.S. revenue in coming years. Higher exports, though, likely will fill the gap. Regulating the weed may be Al Gore's obsession, but tobacco is hardly down for the count.

By John Carey, with Catherine Yang in Washington and David Greising in Atlanta

WARNING: CIGARETTE BANS DO NOT CURB TEEN SMOKING

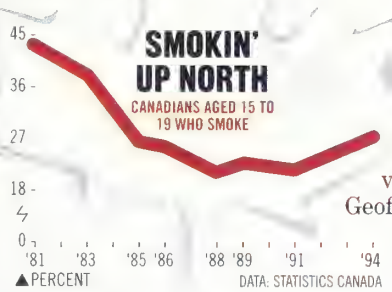
How many teens would quit smoking if President Clinton's regulatory assault on tobacco actually became law? A compelling answer—not many—comes from Canada, where one of the world's toughest antismoking campaigns already has field-tested virtually all of the Administration's proposals.

Alarmed by the soaring cost of treating tobacco-related illnesses in its nationalized health-care system, Canada began dramatically raising tobacco taxes in the early 1980s. By 1993, taxes had more than quadrupled, bringing the price of a pack to about $5. In 1988, Parliament passed the Tobacco Products Control Act, which banned all tobacco advertising. Last fall, Canada began requiring the world's biggest health warnings on cigarette packs, with such blunt messages as "Cigarettes are addictive."

"HUGE DISAPPOINTMENT." Thanks to these measures, "Canada has had world precedent-setting declines in teen smoking," says Garfield Mahood, Executive Director of the Toronto-based Non-Smokers' Rights Assn. Between 1979 and 1989, the number of teens aged 15 to 19 who smoked at least occasionally was halved, to 23% (chart). In contrast, "U.S. efforts have been a huge disappointment," says John Bloom, a tobacco expert at the American Cancer Society. Some 30% of U.S. high school seniors smoked through the 1980s, he adds, and "now we're seeing an alarming increase."

Problem is, nearly every expert believes most of Canada's progress stemmed from its stiff cigarette taxes, which Clinton's program does not include. Econometric studies by researchers at the National Cancer Institute, the University of Illinois, and Harvard University's School of Public Health show that a 10% price hike will trim teen consumption by at least 10%, compared with a 4% drop for adults.

Conversely, kids have smoked more since the federal and many provincial governments slashed cigarette taxes in early 1994 to combat a flood of cheap smokes smuggled in from the U.S. With a pack of 25 now selling for around $2.50 in Ontario, down 44% from 1993, a University of Toronto survey found a third of junior high school smokers are puffing more. Moreover, the number of teens who smoke at least occasionally also jumped to 27.8% last year, up from 22% in 1991. Overall, the tobacco market has expanded "by 8% to 10%" since prices fell, concludes Pierre Fortin, president of the Canadian Economics Assn., and "the adolescent market has expanded even more dramatically."



Clinton's program would prohibit sales of cigarettes to minors. But Canada has found such bans notoriously difficult to enforce. Despite stiff new penalties, the University of Toronto survey found 59% of Ontario minors still routinely buy their smokes at a store. Similarly, the percentage of Canadians who smoke has remained relatively constant since Canada's ban on advertising and promotion came into force in 1989. Moreover, by reducing marketing costs, the law has helped cigarette companies earn "absolutely phenomenal profits," says Jacques Kavafian, a tobacco analyst at Montreal's Levesque Beaubien Geoffrion Inc. At Imperial Tobacco, which controls 65% of the Canadian market, operating profits have doubled since 1988.

No wonder Canadian experts doubt Clinton's measures will achieve his goal of cutting teen smoking in half. "Because they think they're immortal, kids don't pay a lot of attention to health warnings," reasons David Sweanor, senior legal counsel for the Non-Smokers' Rights Assn. They do pay attention to their wallets. That's why the American Cancer Society and more than 100 other health groups are lobbying Congress to approve a $2-per-pack tax increase. Though tax hikes of any description seem anathema these days, Canada's experience suggests they could do more than anything Clinton has suggested to keep American teens smoke-free.

By William C. Symonds in Toronto

DEALS

A $3.8 BILLION TAKEOVER IS QUITE A SWAN SONG

PECO's Joe Paquette chases PP&L as a prelude to retirement

Joseph F. Paquette Jr. could have kicked back. At age 61, he had ceded the chief executive's title at PECO Energy Co. to longtime lieutenant Corbin A. McNeill Jr. Easy enough now to enjoy a cozy "transition" year or two as chairman, heading board meetings and perfecting his three-iron.

No way: Paquette, a Yale-educated engineer, admits to having recently taken up "the horrible sport of golf," but otherwise, his vision of semiretirement includes engineering a $3.8 billion hostile takeover attempt of a neighboring power company. On Aug. 14, Philadelphia-based PECO announced it was making an audacious, unsolicited stock offer for Pennsylvania Power & Light Co.

PAQUETTE AND McNEILL: *They "straightened PECO out"*

Hostile deals remain a rarity in the clubby utility world. Indeed, PP&L Chief Executive William F. Hecht told Paquette by letter that he was "disappointed" at the "precipitous" step, which followed nine months of private discussions between the companies. But the power business is changing dramatically: The same day PECO made its offer, two Midwestern outfits—Union Electric Co. and Cipsco Inc.—announced a $1.2 billion merger. Utilities, facing increasing deregulation and competition, are being forced to change the rules. And the rule-changers are hard-charging activists such as Paquette.

Paquette likely can pull off his bold gambit: State regulators probably will favor the combination, and investors are pleased with the 27% premium his offer represents over PP&L's market price. If so, the deal would cap one of the power industry's more notable recoveries. With McNeill, Paquette has patched up PECO's strained relations with regulators, dramatically cut costs, improved operations and, generally, "straightened that company out," says Bear, Stearns & Co. analyst Dan Scotto. Preparing PECO for a deregulated future that will allow customers to shop around for power, Paquette has brought in top execs from such customer-sensitive outfits as General Electric , GTE, and Bell Atlantic.

ERRATIC. Still, PECO needs a big acquisition to boost its finances. It's lugging heavy debt and big restructuring charges, and earnings have been erratic. After climbing to $590.5 million on sales of $3.5 billion in 1989, net income seesawed to just $426.7 million last year on sales of $4 billion. Even as dividends have steadily risen, shareholders have been cool on PECO stock, which slid from about 33 in late 1993 to 27¼ on Aug. 16.

PP&L, a largely rural, $2.7 billion-a-year company based in Allentown, Pa., would give PECO control of much of the power in eastern Pennsylvania. The combination would allow for hefty savings through cost-cutting, maybe even as much as $2 billion over 10 years, Paquette figures. Both companies produce more power than they need—with PECO's peak demand in the summer and PP&L's in the winter—so the combined company could be a big net seller.

Semiretirement it's not. But seeing the deal through "was very logical," says Paquette. His horrible sport can wait.

By Joseph Weber in Philadelphia

CONSERVATION

HELP OR HYPE FROM EXXON?

Its $5 million to save tigers may not stop poaching

Even when Exxon Corp. tries to d good, it has a knack for riling conse vationists. In an attempt to spiff u an image still stained by the 1989 Exxo Valdez spill, the oil giant plans on Sep 28 to kick off a campaign to spend som $5 million on saving the tiger—its corp rate symbol—from possible extinctio The money will support breeding effor and information displays in zoos and tig projects in Siberia and Sumatra.

But some conservationists are grow ing that Exxon's spending will do little combat the real threats to tigers: poac ing, illegal trade in tiger parts, and d struction of the animals' prey by hunter

NO ONE HOME. The reason: Exxon's pr liminary plan is to give up to two-third of its initial largesse to zoos for captiv breeding and education. Sources say will steer clear of antipoaching program which could be politically sensitive Asia, and plans no initial effort in Ind and Nepal—home to most of the world remaining tigers. "If Exxon's not a dressing the crucial factors that are cau ing the decline in the wild, the money probably not going to do much good says Ullas Karanth, a Wildlife Conserv tion Society research ecologist in Indi

Exxon says the projects will be a proved by a board of tiger experts. T effort, they note, will likely evolve and may even change before Septembe "We've been wary of the overemphas on zoos from day one," admits Amos Eno, executive director of the Nation Fish & Wildlife Foundation, the grou that will administer the fund. The alte native to changing the program may watching Exxon's corporate symbol the way of the dinosaur.

By John Carey in Washingto

It's the Four Wheeler of the Year. (In some places, it's the only vehicle of the year.)

he Discovery from Land Rover as made it to yet another one of those ncredibly hard-to-reach places.

First place.

After *Four Wheeler* magazine tested both on and off road, along with a umber of other top new sport utility ehicles, the Discovery won the illusrious title of Four Wheeler of the Year.

It was also selected by *Automobile agazine* as the All-Star Sport Utility. nd it even appeared in *Popular Science* as the Best of What's New.

Of course, such praise isn't too surprising for a 4x4 with all-terrain ABS, permanent four-wheel drive, standard dual airbags, and an astounding ability to handle the farthest-flung corners of the planet.

Not to mention six children.

Why not call 1-800-FINE 4WD for the nearest dealer? Despite all the fame and recognition, the Discovery is still most reasonably priced at $29,950.*

As the acclaim it's been getting shows, it's undoubtedly ahead of the competition.

And not just in places where there isn't any.

LAND ROVER DISCOVERY $29,950*

Always wear your seatbelts. SRS airbags alone do not provide sufficient protection.

EDITED BY KEITH H. HAMMONDS

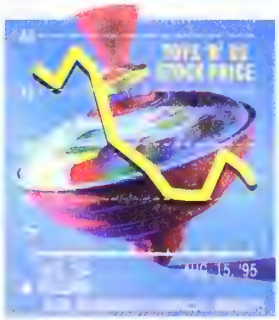
CUYAHOGA COUNTY VS. THE STREET

WALL STREET IS FEELING more legal heat, this time from Cuyahoga County, Ohio, which wants to win back some of the approximately $115 million in trading losses it suffered last year. In a suit filed Aug. 15, Cuyahoga accused McDonald & Co. Securities and National City Bank of fraud for allegedly leading the county to borrow against future taxes, using the proceeds for speculative investments. It charged those two and PaineWebber, Dean Witter, Kemper Securities, Tucker Anthony, and Smith Barney with negligence and violating fiduciary duties. McDonald says the claims against it are meritless; the others declined to comment.

CLOSING BELL

TOYS 'R' STALLED

Christmas was a bummer for Toys 'R' Us, and August isn't much merrier. A few months after Toys execs warned of slowing profit growth, the retailer on Aug. 14 announced that earnings for the quarter ended July 29 fell 58%, to $15.8 million. The problems: Video games aren't selling like they used to, and no blockbuster toy has filled the void. Long-suffering investors seem unsurprised: The stock held ground around 26⅝, still down from last year's highs above 40.



IS COMPAQ STARTING A PC PRICE WAR?

HEY, BUDDY: WANT A HOT personal computer, real cheap? Talk to Compaq Computer. On Aug. 16, it slashed desktop PC prices by up to 25%, in a move clearly aimed at Hewlett-Packard and Packard Bell, which have gained share rapidly in corporate and consumer markets. While the cuts partly reflect inventory-clearing, they set an aggressive precedent for Compaq's new consumer line, due next month. Senior Vice-President Ross Cooley says lower manufacturing costs and booming sales of high-margin servers will offset most of the impact on gross margins. Still, Wall Street loathes anything that smells of a price war. It knocked a half-point off the company's shares, which fell to 53¾.

A WHISTLE-BLOWER GETS HIS REWARD

IN THE END, IAN JOHNSON didn't keep his job. But the young engineer did walk away from his whistle-blower's suit against General Electric $1.7 million wealthier. GE agreed on Aug. 10 to pay that amount—part of a $7.18 million payment to the U.S.—to resolve the suit filed by Johnson in December, 1993, and later joined by the Justice Dept. Johnson had charged the company with selling jet engines to the military that didn't comply with contract terms. Johnson's attorney, Jim Helmer, says the case forced needed testing of a key engine and also required GE to fix one part. GE notes that Air Force and Federal Aviation Administration tests showed the engines were safe and believes it was vindicated by the settlement.

HEADLINER: ABIGAIL JOHNSON

DAUGHTER'S DAY

In case anyone at Fidelity Investments had failed previously to grasp the obvious, here it is: The boss's daughter has become your most powerful colleague. By far.

On Aug. 9, Chairman Edward "Ned" Johnson reduced his voting control in his family's privately held firm to 12% from 24.5% but left intact the 24.5% stake owned by his 33-year-old daughter, Abigail. Meanwhile, he distributed a 51% voting stake in the mutual-fund company to 50 senior executives and fund managers.

Why? Ned and Abigail declined to comment, but a spokeswoman says it was "to recognize the contributions of key employees" and for estate-planning purposes. Fidelity i worth well over $5 billion, and the move will likely save the Johnson family hundreds of mi lions of dollars i estate taxes. Fidelity watchers say it solidifies the likelihood that Abigail will succeed her 65-year-old father, although it remains uncertain as to when the chang will take place. For now, Abigail has no plans to give up her current job running Fidelity's $2.1 billion OTC Portfolio.

By Geoffrey Smit

SENATOR BRADLEY BOWS OUT

SENATE DEMOCRATS LOST A leading expert on taxes and global economics when Bill Bradley (D-N.J.) announced his retirement on Aug. 16. Bradley, an avid free-trader who played a key role in the passage of the North American Free Trade Agreement, bowed out rather than face a grueling reelection race on the same ticket as President Clinton, whose performance has disappointed the 17-year senator. Early front-runners for the seat are two centrist congressmen with big war chests, Republican Dick Zimmer and Democrat Robert Torricelli.

FEDERATED STORES' BROADWAY PLAY

ONE DAY, WE WILL VISIT THE mall. We'll see a big Federated department store and a big May rival—and perhaps n much else. The rapid indus consolidation continued A 14 as Federated Departm Stores announced plans to b Broadway Stores for $1 b lion. The deal came n months after Federated p $4 billion for R.H. Macy a days after it lost out to M and J.C. Penney for bankr Woodward & Lothrop. Me while, Sam Zell, who ow 54% of Broadway, led a gro that will invest $250 million Rockefeller Center Propert

ET CETERA . . .

- The Justice Dept. is pr ing USAir for possible unf pricing against two rivals.
- Hasbro will join w DreamWorks SKG to creat new line of toys and game
- Microsoft hired Digi Equipment veteran Gord Bell to join its "brain trus
- Metropolitan Life and N England Mutual will mer creating an insurance gia

Sun, we think your new, more helpful computer network should help you make money. And we have a complete set of products and rvices that let you do just that. We give you quick and painless access to the Internet. And we'll enable you to conduct commerce in a y that's completely secure for you and your customers. Thanks to our advanced SunScreen™ security solution. We can also set you up th our breakthrough, graphics-intensive HotJava™ browser, so you can interact in real time with customers, th live financial information, and more—right on the Internet. For information on network computing, ease contact the company that invented it. Sun. At http://www.sun.com or 1-800-786-0785, Ext. 255.

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IT'S AMAZING

GTE

WHAT WE CAN DO
TOGETHER

TED BY DOUGLAS HARBRECHT

EROTNISTAS ARE TWISTING GOP ARMS N CAMPAIGN REFORM

ay Vinton, an RJR Nabisco sales rep from Flint, Mich., is enthusiastic about many of the Republican Congress' top priorities, from budget-balancing to welfare reform. on one issue, he's bitterly disappointed: the reluctance of leaders to reduce the influence of special-interest money olitics. "It overshadows all the good things that are going says Vinton, who attended Ross Perot's United We nd America (UWSA) Aug. 11-13 confab in Dallas.

inton's lament hasn't been lost on the GOP. Republican ers once thought symbolic acts such as pri-zing the House barber shop could substitute fundamental political reform. But with polls wing voter disgust with Washington rising n, they're realizing that foot-dragging could l disaster in the voting booths. Squeezed in o-reform vise between Perot's populist le-s and President Clinton, who has stepped attacks on lobbyists' influence on Capitol , the Republican leadership has reluctantly ed political reform up on its agenda.

mong the changes most likely to be adopt-n the next year: more detailed disclosure of ying activities, limits on out-of-state cam-n contributions, and curbs on the "revolving r" that lets former lawmakers and govern-t officials cash in as lobbyists. In early ust, the Senate voted to curtail lobbyists' s to senators and close disclosure loopholes.

LURKING: *Anger in Dallas*

E PRAISE. Freshman Representative Zach Wamp (R-n.), whose proposal to cut maximum political action com-tee donations from $5,000 to $2,000 won rare praise from se Speaker Newt Gingrich (R-Ga.), predicts public pres-will force the House to take up campaign reform "no lat-han the spring. To think that you can postpone this until r is not going to fly."

Vithout question, there has been a shift in the wind on itol Hill. Last May, Gingrich told BUSINESS WEEK: "There is zero [grassroots] pressure for campaign reform." But now, there's little choice but to bend. Clinton has been scoring points with scorching criticisms of Gingrich & Co. for allowing big-buck contributors to craft clean-water and telecom-reform legislation. And Clinton isn't waiting for Congress to act: He has implemented White House lobbying curbs by executive order. Meanwhile, Republicans are on the defensive over Gingrich's failure to follow through on his June handshake deal with Clinton to set up a bipartisan reform commission. "There's a clear consensus that fundamental reform of the political system is necessary," says Democratic pollster Mark Mellman.

Gingrich dismisses the Democratic offensive as "cheap political games." But he takes the Perotnistas seriously—they played a crucial role in giving Congress to the GOP in 1994. In Dallas, UWSA followers threatened to oust GOP candidates next year if they fail to act. "We have a system that is legalized bribery," says Valli Sharpe-Geisler, a San Jose (Calif.) teacher. "We don't want lip service. We want action."

Some of Perot's demands may be too radical for Gingrich and Senate Majority Leader Bob Dole (R-Kan.) to stomach. The UWSA manifesto calls for an end to unlimited contributions from corporations and labor unions to political parties, free TV time for congressional candidates, a ban on foreign corporations hiring U. S. lobbyists, and a five-year waiting period before ex-officials could lobby. The changes Congress is likely to pass will fall far short of Perot's wish list and could incur his wrath during the 1996 campaign. "If we try to sell a fake, the American people are going to be angry, and there will be a great turnover in Congress again next year," says Representative Linda Smith (R-Wash.). It's that kind of fear that could be the best hope for real reform after years of special-interest gridlock.

By Richard S. Dunham in Dallas

CAPITAL WRAPUP

SCAPE HATCH

With pressure growing on Senator ob Packwood (R-Ore.) to step down Finance Committee chairman be-use of his ethics woes, Republicans ay look to a relatively junior mem-r—Utah's Orrin G. Hatch—to take s place. The Senate would normally rn to the panel's No. 2 Republican, -year-old supply-sider William V. oth of Delaware. But moderates ink he's too ideological on tax mat-rs, and conservatives would never cept John H. Chafee of Rhode Island, who is next in line. That could leave Hatch as a compromise choice.

FULL DISCLOSURE

▶ President Clinton created a media stir on Aug. 2 by lifting a ban on security clearances for gays. But his executive order also riled the defense industry by requiring defense workers to file financial-disclosure statements when working on classified projects. It is meant to detect payoffs to spies. Industry frets that the new rules will be too intrusive. And executives balk at revealing their wealth. "It's not going to catch spies anyway," grouses industry lawyer Daniel C. Schwartz. "Spies will lie."

BANKING ON VALUES

▶ Attacked from the left as environmentally insensitive and from the right as a relic, the World Bank is getting in touch with its feelings. The bank is sponsoring an "Ethics and Spiritual Values" seminar in October. Officials say 20 government officials and execs have signed up. But wonders one who hasn't: "Can you imagine any banker going to this?"

MEXICO

THE BRAVE NEW WORLD OF MEXICAN POLITICS

The peso's collapse has inflamed the passion for change–as a reform party gains clout

In a modest office in a middle-class Mexico City neighborhood sits Carlos Castillo Peraza, a soft-spoken man with big ambitions. Castillo heads the National Action Party (PAN), Mexico's most important opposition group. For most of its 56-year history, the party has offered little more than token opposition to the powerful Institutional Revolutionary Party (PRI), which has ruled Mexico since 1929. But all that is changing: The PAN, which won 26% of the presidential vote last year, now controls four governorships, 174 municipalities, and 144 of the 628 seats in Congress and the Senate. Castillo aims to gain control of the legislature two years from now. His lofty goal for the year 2000: the Mexican presidency.

Castillo keeps a collection of plastic dinosaurs on his bookcase. He says they represent the Old Guard PRI politicians whom he intends to drive into extinction. Mexico, he says, faces a dramatic dilemma: "We must choose between democratic change and the dinosaurs who refuse to die."

"TRAUMA." While not the likeliest prospect, a PAN presidency is one possible outcome of the battle that is now raging for Mexico's soul. Last winter's peso collapse, the fourth major economic crisis in 18 years, plunged the economy into a brutal downturn. About 1 million Mexicans are already out of work as output shrank a huge 10.5% last quarter. Such hardship triggered a process of self-examination that is profoundly shaking Mexican politics and business. Eager to avoid future debacles, Mexicans are pushing for more representative government and a more level playing field in business.

As a result, Mexico is likely to become a cleaner, more transparent place as elections become fairer and cozy government-business ties are reduced. But first, there could be a turbulent transition period of increased uncertainty and risk. "We're witnessing the death of one regime and the birth of another," says Mexico City political scientist Sergio Aguayo. "Any such change involves trauma."

CLEANUP CRUSADE: RAUL SALINAS AND DRUG TRAFFICKER PALMA

THE JUNE MURDER OF A MEXICO CITY JUDGE MAY WELL BE A WARNING TO ZEDILLO TO BA

he PRI, which has ruled through bal-
stuffing, vote buying, and siphoning
of government funds, is in rapid de-
e. Former President Carlos Salinas
Gortari drained the party of its pa-
age lifeblood through mass privatiza-
of state companies. Now, President
esto Zedillo Ponce de León is fur-
bleeding the PRI through anticor-
ion drives and by installing Antonio
ano Gracia, a hard-driving PAN mem-
as Attorney General. With several
ninent party members in jail, dis-
ed PRI supporters are split into two
ps. Some will do almost anything
ang on to power, but others talk
ly of leaving the party if it refuses
nange.

SANT MASSACRE. But the old sys-
isn't going to wither away quietly.
stalwarts are fighting to preserve
r power and perks. In the states of
asco and Yucatán, local PRI organiza-
s are widely believed to have flouted
election laws in recent gubernatori-
lections—thumbing their noses at
illo's vows to make politics fairer.
er Zedillo shut down an allegedly
uption-ridden Mexico City bus com-
in April, two people linked to the
—an investigator and a judge, Abra-
Polo Uscanga—were gunned down.
lysts say the killings were a warn-
to Zedillo to back off from reforms.
hings are getting particularly nasty in some states where local PRI bosses, or *caciques*, are sending their private bands of gunmen or police to eliminate potential rivals and intimidate restive peasant groups. Two months ago, police in the state of Guerrero gunned down 17 peasants on their way to an antigovernment rally not far from the beaches of Acapulco. The PRI governor at first refused to go after those responsible, saying public outrage was "overblown." But he changed his tune when the National Human Rights Commission, which reports directly to Zedillo, gave him two weeks to find and prosecute those responsible.

Drug money is helping prop up the old system. As the Cali cartel falls apart in Colombia, some $7 billion in drug money a year is flowing through Mexico. That's nearly equal to last year's direct foreign investment. When accused drug trafficker Héctor Luis "El Güero" Palma was captured in June, he was holed up in a house belonging to the deputy chief of federal judicial police in Guadalajara. Investigators claim Palma was handing out as much as $40 million a month to buy off government officials and police in that state alone. Drug money, Lozano warns, "threatens our sovereignty and is eroding our political and social foundations."

Despite the setbacks and the obstacles, some observers say they sense the passing of the old way of doing things in Mexico. "When a beast is near death, it thrashes harder. These are the death throes of a system we hope will disappear," says prominent businessman Juan Sanchez Navarro, senior vice-president at Grupo Modelo, Mexico's leading brewer.

> "You can't have a First World economy with a Third World political system. We need to move ahead by opening up more.... It's urgent"

Beginnings of a new order are appearing. A broad spectrum of Mexicans blame the country's current crisis not just on technocrats who bungled the devaluation but on an archaic political and economic system that wasted the $20 billion Salinas raised from privatizations and that manages the country's oil and other resources poorly. "This economic crisis was caused by two things: corruption and inefficient use of our resources," says Jorge Martínez Guitrón, chairman of tourism and steel holding company Grupo Sidek.

For years, Mexico has been run by an elite group of politicians and, more recently, by Ivy League-trained strategists answerable to no one. The system combines bureaucratic capriciousness at the top with local corruption at the bottom. Decisions are made in the back room—changing the rules overnight for small shopkeepers and big investors alike. Average citizens run a daily gauntlet of corruption, from the functionary who requires a "tip" to grant a building permit to the cop who shakes down motorists to supplement his meager salary.

BOOM AND BUST. Corruption occurs all over the world, but in Mexico the setup isn't delivering for anyone but a narrow elite. Economic growth has averaged a slim 2% over the past 10 years: That's nothing like the 8% to 10% common in Asian economies that Mexican officials say are their models, and it's barely enough to keep ahead of population growth, just over 2% a year. Moreover, periodic economic collapses—in 1982, 1986, and this year—have wiped out savings and businesses. Many Mexicans think this boom-and-bust pattern could have been avoided.

The latest debacle seems to have snapped Mexicans out of their tradition-

ON REFORMS

A NEW MEXICO IS EMERGING...

CUTTING THE MONEY PIPELINE Privatization of state-run industries has eroded the PRI's powerful patronage system, making business and labor less beholden to the ruling party.

EXPOSING CORRUPTION Mexicans are demanding more transparency in government, and the press is covering corrupt officials and illegal corporate contributions to the PRI.

THE ZEDILLO EFFECT The new President is cleaning out his own party–purging corrupt elements and bringing the opposition into key posts.

RIVAL CENTERS OF POWER Business is calling for more accountability and political pluralism. Grass-roots groups are demanding fairer business conditions.

...BUT THE OLD ORDER IS DYING HARD

DRUG LORDS Their influence is growing. More politicians, prosecutors, and police are showing up on their payrolls.

LOCAL BOSSES They are exploiting Zedillo's weakness to grab more power. Political killings are up.

THE ECONOMIC CRUNCH Hardship has sparked a crime wave and could boost demands for payoffs and other corruption.

DATA: BUSINESS WEEK

al submissiveness. Encouraged by President Zedillo's crusade for cleaner government, more Mexicans are scorning police officers who demand bribes and calling government hot lines to report crooked officials. Nearly 1 million middle-class debtors have joined forces in a group called Barzon that pickets and sometimes shuts down bank branches to protest the 60% interest rates that have crushed businesses. Many such people are voting for the PAN. They are attracted by the party's growing clout, its reputation for honesty, and its support of reforms that would boost small business. The leftist Party of the Democratic Revolution (PRD) is in disarray and hasn't been able to exploit all the discontent.

ROUTING CORRUPTION
Attorney General Lozano, a PAN member, is now investigating the drug lords' links with the police and government officials

The mood is changing among many executives, too. They have long been fearful of disrupting a system that they knew to be corrupt but that functioned for those with the right connections. Now, many believe that a real multiparty system will make Corporate Mexico less vulnerable to bribe-seeking officials and favoritism. It doesn't hurt that the major challenger to the PRI, the PAN, is to the right of the ruling party.

CLUBBY COTERIE. Meanwhile, the coterie of PRI-connected executives may soon feel the same sort of pressure for accountability that party bosses are encountering. Outside investors, attracted by Mexico's membership in the North American Free Trade Agreement, will demand it. As things stand, boards of directors are notoriously clubby, with little or no dissent. And insider trading and the passing of information to cronies happen all the time.

Other changes are already occurring, as boards begin standing up for shareholders. Sources say that a board member of Vitro, the Monterrey glass giant, objected in a board meeting to Chairman Adrian Sada's plan to spend $55 million of the company's money to bail out troubled Banca Serfin, which Sada also heads. The board member warned that Sada's plan to increase Vitro's share in Serfin from 10% to 20% would hurt the Vitro stock price. And the stock did take a hit later, when the move was announced in mid-July.

Money links between business and the PRI are coming under attack in the Mexican press. Salinas created a scandal last year, when he participated in a PRI fund-raising dinner with top business owners aimed at forming a $1 billion trust fund to sustain the PRI's hegemony. To be sure, some big beneficiaries of Salinas' privatization programs, such as Gerardo de Prévoisin, former chief of Aeroméxico, gave big dollars, but the business elite also started hedging its bets.

Last year, business contributed more than $2 million to a Democracy Trust that sent independent observers to monitor 20,000 polling places in the presidential elections. A number of important entrepreneurs also made anonymous campaign donations to the PAN. "They realize that the more democracy we have, the better the climate will be for everything—including business," says Santiago Creel Miranda, who has put his fast-track career as a corporate lawyer on hold to crusade for fair elections.

Creel is one of a growing number of Establishment figures willing to take big personal risks to promote change. In 1994, he was asked to become one of six "citizen counselors" for the Federal Electoral Institute. Their assignment was to make sure that last year's presidential elections were free of fraud. Creel worked zealously in this role—but that earned him some enemies. Last November, he was ambushed outside his house by men who stuck a pistol in his face and warned him to get out of the election-monitoring business. But he is now working to make this year's flurry of state elections cleaner.

MONITORING ELECTIONS
Corporate lawyer Creel has put his fast-track career on hold to campaign for fair voting practices. "The more democracy we have, the better"

Creel and others argue that a more open system will ultimately spur growth. A less corrupt and arbitrary system would probably encourage entrepreneurial activity and help build a larger middle class. An estimated 60% of Mexican workers take home less than $140 per month. Says Mexican financier Gaston Luken, head of Mexican operations for General Electric Capital Services: "You can't have a First World economy with a Third World political system. We need to move ahead by opening up even more—economically, politically, and culturally. It's urgent."

FAMILY TABOO. How quickly and smoothly Mexico makes this transition depends to a great extent on President Zedillo. A technocrat who was thrust into the limelight after the PRI's first candidate, Luis Donaldo Colosio, was assassinated, Zedillo has focused on issues that polls showed were foremost in voters' minds: reform of law enforcement and corruption. U. S. Ambassador James R. Jones says he has approached the Zedillo Administration on three occasions to pass on complaints from American businesses about kickbacks or improperly conducted public tenders. In each case the government fixed the problem.

Zedillo scored big points when he O. K.'d the arrest of Raul Salinas, brother of the former President, on charges of conspiracy to murder PRI Secretary General José Francisco Ruiz Massieu last year. Going after the family of a former President broke all the rules.

But for his program to prevail, Zedillo must show more skill than he has so far at using the still powerful presidency to push changes through. Reform also depends on how the opponents of change behave in the coming months. A series of killings or scandals could give investors the jitters again, scuttling gains made in restoring economic health. But if Mexican society continues to show that it demands change and is willing to support Zedillo in his reforms, the dinosaurs who have dominated Mexico for so long may lumber off into history.

By Geri Smith in Mexico City, with Stanley Reed in New York

IENEM: THE DEVIL'S REAL NAME S DEVALUATION

n interview with Argentina's resolute President

rgentina is becoming a testing ground for the social costs of economic change. That's because, in aftermath of Mexico's financial cri-, President Carlos Saúl Menem's e-market reforms are spurring a ssive restructuring of government d industry. One result is 19% unployment, the highest in Argentine tory.

In his office in the Casa Rosada, presidential palace in Buenos res, Menem, 65, displays easy assurance of a itician who won reelecn just three months ago. spite protest demonstrans and rioting against cuts, Menem is confint that Argentines will ntinue to support his icies as the best insurce against inflation, the urge they fear most.

In an hour-long interw, he discussed his plans h Ian Katz and Louisa epard, correspondents for SINESS WEEK in São ulo and Buenos Aires, pectively.

For months, speculators d you would have to deue. What was your rion?

We just kept saying "no." We now ve a trade surplus: Imports have yed at the same level, but exports ve surpassed them. We are experts in subject of devaluation. For 50 years, devalued in Argentina, and every ne, it was worse. Along with the deuation, prices would change, and ng with prices, salaries. It was scanous. If I've seen that movie [devaluon] 10 times, I don't want to see it the 11th.

What will you do about joblessness?

Unemployment has gone up, but verty has dropped notably. When we k over the government, the poverty e was 37%. Now, it is 30%. Why is s? Because in Argentina, regrettably, ere is a lot of underground activity. It esn't pay taxes and social security. Businesses that have assumed the sponsibility of an open economy have renovated their factories and work under legal conditions. Those that couldn't compete have gone underground. The day this underground economy is legalized, the unemployment rate will go down substantially.

Q: *What reforms remain to be done?*
A: Deregulation in some sectors. Reforms in the financial system—it's still a bit of a headache. With an annual inflation rate of 3.5%, annual interest rates of more than 20% are not justified. Some banks are lending at 30% or 40%.

> "For 50 years, we devalued in Argentina, and every time, it was worse"
> CARLOS SAUL MENEM

Q: *What about privatizations?*
A: One is Yacyretá [a joint Argentine-Paraguayan hydroelectric complex], the largest public-works project in recent times. We are going to give its operation and administration to third parties. We are also going to start construction of Corpus [another dam with Paraguay]. For half of what Yacyretá cost, it will generate more energy. That's why I once called Yacyretá a true monument to corruption. We still have to privatize nuclear energy generation. And the post office, which will happen soon.

Q: *You want private investment to create jobs, but your public-works plans look like government make-work.*
A: For housing, we are going to rely on resources of the national treasury. But the rest—like the $5.5 billion rail plan for the capital—will have to be done with private resources, through concessions. That's what we're doing with the Pan American highway. The government isn't spending a peso, and the companies doing it will start charging tolls. The same is going to happen with the Aero-Isla [the proposed artificial-island airport for Buenos Aires].

Q: *Are you encouraging foreign investors to participate in these plans?*
A: Not only in the new projects like the trains and the Aero-Isla but also in a lot of projects in the interior.

Q: *Have Argentine workers been overpaid?*
A: They still are: They have the highest salaries on the continent. The average is around $700 per month. That's why Paraguayans, Bolivians—even Brazilians and Chileans—come to work here.

Q: *Economic troubles in the provinces have sparked violent outbursts. What is the remedy?*
A: I'll give you an example. Some provinces have privatized their banks and energy distribution and water, and costs have been reduced notably. Others haven't. They keep the electric company under provincial government control, and rates are high. The federal capital eliminated the tax on checks, but the rest of the provinces didn't. It makes it impossible for the cost of credit to decline. As long as they don't offer favorable conditions for national and foreign capital, investment won't go there.

Q: *What's your vision for Argentina?*
A: We aspire to be among the 10 best countries on earth. That's where Argentina was until 45 years ago. We fell to 100th place. In these years [of Menem's presidency], we have regained 80 places. We're among the 20 best countries on earth, because of stability and growth.

PAUL SCHIRNHOFER FOR USMATRIX

"The SAS® System is Our Strategic Choice for Investment Decisions"

Moser contends that using the SAS System has also turned traditional developer/end user wars into "a cooperative process. Now they sit side by side, building the application together." And saving the bank both time and money.

Ultimately, of course, it's up to the customer to decide how individual portfolios should be invested. But, with the SAS System as the tool for turning their data into meaningful information, UBS financial analysts can be certain those decisions are based on the most comprehensive, up-to-date information available.

With Productivity Gains of Up to 200%, the Union Bank of Switzerland Finds It Made the Right Decision...about Software and Much More.

The Union Bank of Switzerland is the largest bank in Switzerland. Core to the bank's success is its reputation for personalized customer service among large investors. *Providing* that service is the job of UBS' team of investment research analysts, who support portfolio managers and investment advisors in determining what to buy, what to sell, and when.

They're finding answers in the SAS System, which enables over 70 financial analysts to advise portfolio managers on the best portfolio mix. "Our strategy is to find ways to enable analysts and financial advisors to handle information more easily and quickly," says UBS Vice President Beat Moser. "What that meant was finding a software tool that could eliminate the redundancy of information and time caused by the use of several different analysis products—each limited in terms of functionality and ability to access key data. And it meant finding a tool that allowed applications to be developed, and changed, fast."

Smart Move, Smart Money Moser believes that UBS has resolved those challenges in their choice of the SAS System as their strategic software. "Our previous system required many labor-intensive steps as data was moved from one software product to another," recalls Moser. "Today data access, management, and summarization is handled automatically by the SAS System. This has given us productivity gains of up to 200% in some areas. The SAS System is fully integrated and meets most of our analysis needs—it's our strategic choice in various research units of our bank."

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TED BY PETER GALUSZKA

FTER THE COLD WAR, HE NUCLEAR THREAT GROWS

t first glance, it seems that the world is making big strides in controlling nuclear weapons. On Aug. 10, French President Jacques Chirac backed banning all nu- r weapons testing, in part to blunt global criticism of nce's coming bomb blasts under the South Pacific. The t day, President Clinton said he also favored a total test , making it likely that the Comprehensive Test Ban Trea- vill be approved next year. That sweeping pact would com- nent the Nuclear Nonproliferation Treaty that more than nations approved in May.

Sut guess again if you think the nuclear threat is diminish- Critical arms-control pacts that ped hold the bomb in check for years appear to be at risk. At same time, contraband trade in pons-grade nuclear material is ving, leading some analysts to rn for the stability of the cold "Today, the world is in fact a e dangerous place," says Gary nollin, director of the Wisconsin ject on Nuclear Arms Control.

PICION. For decades, arms con- was the all but exclusive prov- of U. S. and Soviet leaders who erstood the devastating force of lear weapons. Hopes were high that the Soviet breakup ld speed disarmament efforts. But just the opposite ap- rs to be happening. Mistrust is growing between Washing- and Moscow. A Republican-controlled U. S. Congress and nexperienced Russian Parliament, sullen over the Soviet akup, stand poised to kill such crucial strategic pacts as 1972 Anti-Ballistic Missile treaty and the proposed START accord. Says Sergei Karaganov, deputy director of scow's Institute of Europe: "The whole body of internation- greements which have been created are now crumbling." The first to fall could be the ABM treaty. On Aug. 3, the S. Senate approved $300 million to develop a scaled-back Star Wars weapons program that, if deployed, would violate the pact. Proponents claim that the ABM system is needed to counter future threats such as a new generation of Chinese strategic missiles and North Korea's Taepo Dong II missile.

But an ABM system would cause a chain reaction in Moscow. Too strained economically to fund a competing antimissile system, Moscow is likely to retaliate by rejecting START II. If that happens, U. S. and Russian nuclear arsenals will not shrink by two-thirds, as scheduled, but would remain at about 9,000 warheads each. Moreover, Moscow could repudiate START I, which has eliminated thousands of warheads.

POWDER KEG? *Dismantling weapons in Russia*

The new climate of suspicion will make it harder to address another potentially lethal problem—the growing spread of nuclear-weapons materials to rogue states such as Libya and Iran. Ironically, START I has exacerbated the problem, since much of the weapons-grade material no longer is stored in well-guarded warheads. Instead, the material has been broken down into bulk form, which can be more easily hidden or smuggled. Experts have so far documented five seizures of plutonium and uranium from Russia's huge nuclear cache last year.

Already, governments in Washington and European capitals are putting together high-level campaigns to stem the flow. Even so, worries William C. Potter, a professor at the Monterey Institute of International Studies: "The long-anticipated deluge may well occur." If weapons-grade materials do start flowing to highly aggressive states and cold-war-era arms-control pacts fall apart, the world will indeed become a far more dangerous place.

By Stan Crock in Washington, with Patricia Kranz in Moscow

GLOBAL WRAPUP

AX SOAK FOR MULTINATIONALS?

International companies operating in e U. S. fear they'll be targeted when e U. S. Treasury Dept. studies "for- ulary" taxation that could make them y billions more in taxes. The Trea- ry agreed to convene a conference to scuss the new approach to placate S. Senator Byron L. Dorgan (D- D.), who believes formulary taxes ll make foreign businesses pay their ir tax share. To make the point, he ld up confirmation of six tax treaties.

Under formulary taxes—such as California's unitary tax—the U. S. would tax a multinational's profits based on the U. S. share of the company's production, sales, or workforce. The U. S. tax code now lets multinationals calculate taxable profits based on so-called transfer pricing, which allows more flexible calculations. While Treasury says major changes are unlikely, multinational executives fear it's an effort to fulfill a leftover promise from Bill Clinton's 1992 campaign to soak foreign companies for an extra $45 billion.

GAZPROM LOOKS FOR OIL

▶ Russia's natural gas behemoth, Gazprom, wants to prospect for oil. Unhappy that Ukraine and Belarus, along with customers in Russia, owe billions in unpaid gas bills, Gazprom sees better prospects in oil since it can be transported more easily to richer markets. Gazprom wants to look into offshore deposits near the northern Barents Sea and may also explore promising areas of the northern Caspian Sea.

Introducing The Acura TL Series. All-Encompassing Luxury Automobiles That Stop Just Short Of Excessive.

The new Acura 3.2TL is designed [illegible] make every driving situation more enjoyab[illegible] without subjecting its occupants to needl[illegible] gadgetry or gimmicks.

It is one of those rare automobiles t[illegible]

excels in every category. Instrumentat[illegible] is elegantly displayed inside a rich cons[illegible] Standard equipment includes Automa[illegible] Climate Control and an eight-speaker ste[illegible]

n in-dash CD player. The interior is

cious and inviting. And beneath the

her and appointments of this touring

ury sedan lies a dynamic V-6 power-

t, ideally complemented by the crisp,

onsive handling of a four-wheel double-

bone suspension. The Acura TL Series.

those who prefer to be surrounded by

ury. Not smothered by it.

ACURA

STRATEGIES

A MOVABLE FEAST FOR MITSUBISHI

It's on the spot all over Asia as auto sales boom

When Mitsubishi Motors Corp. decided to go global in the early 1980s, it knew it was too small to duke it out with the major players in the fiercely competitive European or U.S. markets. So Japan's youngest auto maker concentrated on Asia. "We were just beginners, way behind Toyota or Honda," recalls Hirokazu Nakamura, 69, a Mitsubishi veteran who was named chairman in June. "Asia was what was left."

What was born out of necessity has turned into unexpected good fortune for Mitsubishi—or, as the Japanese say, "a rice cake that falls off the shelf." Throughout the region, auto sales are booming as fast as local economies. Since 1989, South Korea's gross domestic product has soared 300%, and car ownership has jumped 500% to 74 million. Some 500 new cars hit Bangkok's traffic-choked streets every day. "The Asian market will soon be as big as the total European or North American markets," predicts Takahiro Fujimoto, an auto-industry guru at the University of Tokyo.

UNMATCHED. Few companies are as well placed to ride the surge as Mitsubishi. Japanese giants such as Toyota Motor Corp. and Honda Motor Co. may sell more cars in Asia, but none can match the complex web of relationships that Japan's No. 4 auto maker has crafted over the years. Besides its dozen parts and assembly plants scattered through the region, it also has 10 joint ventures in Asia and others in Australia and New Zealand. These range from a 6.7% stake in Korea's Hyundai Motor Co. to its latest prize: Vina Star Motors, a three-way venture with the Vietnamese government and Malaysia's state-owned Perusahaan Otomobil Nasional (Proton) that started selling vans in Vietnam in May (table). Mitsubishi also uses an extensive marketing partnership with Chrysler to help raise its presence in the U.S. Besides selling through its own modest network, Mitsubishi makes a number of cars for Chrysler.

But the Asian links are key: They give Mitsubishi low-cost parts, access to restricted markets, and—best of all—profits. Analyst Chikao Masuzawa of Salomon Brothers Inc. estimates that Mitsubishi's consolidated profits could hit $155 million in the current fiscal year ending Mar. 31, up 11%, though its revenues may climb only 1%, to $38.3 billion (chart). Mitsubishi won't break out the results of its joint ventures, but analyst Koji Endo of Morgan Stanley Japan Ltd. reckons that the Asian partnerships supply 30% of the company's profits.

More than just providing a model for conquering booming Asian markets, Mitsubishi's elaborate network also illustrates the daunting competitive challenge that awaits U.S. manufacturers. Since 1990, Japan has poured almost $20 billion of direct investment into members of the Association of Southeast Asian Nations (ASEAN), the seven-member trading bloc, according to Japan's Ministry of Finance. And the flow of money is accelerating as Japanese companies scramble to find cheap labor markets and soften the damage done by the strong yen.

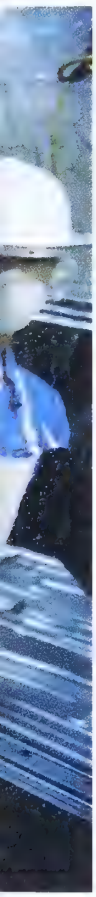
By contrast, U.S. manufacturers have lagged far behind. Chrysler has just launched a joint venture with Swedish Motor to make Jeep Cherokees in Thailand, and General Motors owns 37.5% of Isuzu Motors, which sold some 300,000 commercial vehicles in Asia last year. Ford Motor Co. and Mazda Motor Corp. just announced a $457 million joint venture to build a plant in Thailand. But over the past five years, direct U.S. investment in the region has totaled only $14.9 billion. And now, Corporate America's recent interest in Asia's dragons and tigers appears to be waning as excitement builds over the sleeping giant called China. That's one market Mitsub

RANGING WIDE: *Mitsubishi develops cars and vans with Malaysia's Proton*

isn't worrying about right now. "Chi-
is a big country with a big population
l a big future," says Nakamura. "But
100 years away."

It took a lot less than that for Mitsubi-
to build its presence in other Asian
rkets. In the 1970s, as Toyota, Honda,
l Nissan wrestled with Detroit for a
ger share of the U. S. market, Mitsubi-
began building plants in nearby Asian
ions. It got help and contacts from its
liate, trading company Mitsubishi
p., which was active in the region.

The Japanese auto maker also had a
of vehicles to match the varied
tes of Asian car buyers. From the
ant sedan to the Colt minicar to
cks and buses, Mitsubishi has always
l the widest product line of any Jap-
se auto maker. That's crucial in Asia,
ere Malaysians buy sedans, Thais
fer pickup trucks, and Indonesians
big on sport-utilities. Roughly a
rd of Mitsubishi's Asian sales are



her-margin trucks and buses com-
itors can't offer.

Above all, though, Mitsubishi was lift-
by the region's rising tide. In the
ly 1980s, Asian countries were eager
duplicate the Japanese "miracle."
laysia's Prime Minister Mohamad Ma-
hir, for one, was shopping for deals
t ensured a steady transfer of tech-
ogy. Mitsubishi stood ready to deliver
h capital and knowhow. In Proton's case, the company provided manufacturing expertise and technical assistance to nurture Malaysia's infant auto industry. Today, Proton is a $1.2 billion company that turns out 130,000 cars a year. Its biggest sellers: the Proton Saga subcompact and Wira sedans jointly developed with Mitsubishi. Between direct exports and local production, Mitsubishi sold 280,000 vehicles in ASEAN countries last year, fully 24.3% of the market.

The benefits to Mitsubishi go even further. Its partners crank out low-cost parts Mitsubishi uses in Japan and elsewhere in Asia. For example, Thailand's MMC Sittipol Co. sends truck frames to Mitsubishi in Japan and intake manifolds to Malaysia's Proton. With nearly 20% of its production in Asia's lower-wage markets, compared with Toyota's 5% and Nissan's 1%, Mitsubishi has a leg up in the race against the rising yen.

Other auto makers are trying to duplicate Mitsubishi's Asian model. Most analysts doubt the U. S. can catch up any time soon. Toyota is another matter. The Godzilla of Japan's car industry is lumbering across the Asian landscape, and Mitsubishi, less than a third of Toyota's size, will be hard-pressed to withstand the onslaught for long. Some industry-watchers in Tokyo speculate that a merger pairing the complementary strengths of Honda and Mitsubishi is in the works, which would create a company both large and healthy enough to rival Toyota in many markets.

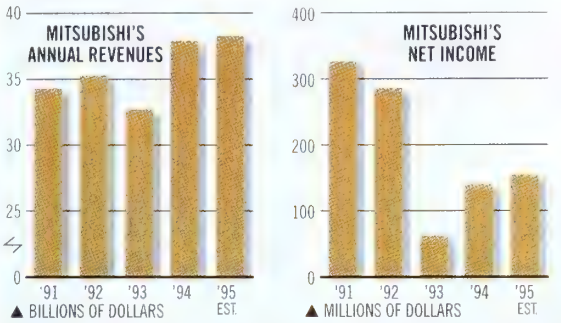
SIBLING RIVALS? Another challenge to Mitsubishi in the region will come from its own partners. No longer startups, they have grand ambitions of their own. Consider Hyundai. Mitsubishi passed along its knowledge of front-wheel-drive engines and recently helped the company develop the Grandeur, Korea's best-selling 3-liter-engine car. But now, Hyundai is "nearly self-reliant in nearly all major technologies," says Choi Han-Young, Hyundai's general manager for international relations. And though its tie to Mitsubishi is mutually profitable, "we'll not shut the door on anyone," he says.

Malaysia's Proton has already loosened its bonds to Mitsubishi. It is working with Citroën, a unit of France's Peugeot, and with Japan's Daihatsu to develop new cars. Executives recently held talks with Germany's Daimler Benz, General Motors, and Ford about supplying lower-cost parts than those Proton now imports from Mitsubishi in Japan.

Mitsubishi still needs its partners. Thanks to the recent popularity of sports-utility vehicles in Japan and the success of such models as its four-wheel-drive Pajero, Mitsubishi's domestic market share has improved slightly. But the Japanese car market is flat these days. And with only 1.1% of the U. S. market, Mitsubishi can't count on Americans to buy nearly enough Galant sedans to bail it out. That's why it may depend on its serendipitous success in Asia for some time to come.

By Edith Updike in Tokyo, with Laxmi Nakarmi in Seoul

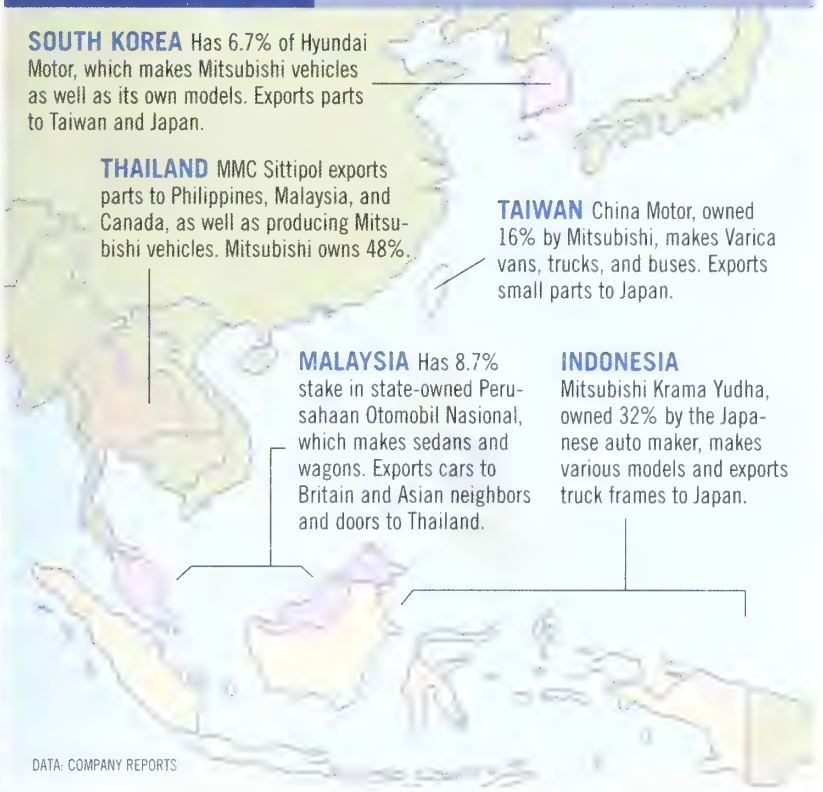
GROWING MARKETS SPARK A REBOUND



CONSOLIDATED RESULTS. FISCAL YEAR ENDS MAR. 31 DATA: BUSINESS WEEK, SALOMON BROTHERS INC.

MITSUBISHI LOOKS TO ITS ASIAN TIES

The Japanese auto maker has 10 joint ventures in fast-growing nations. Among the biggest:



DATA: COMPANY REPORTS

GRAPHICS BY A. BIRD-McGAW

Cover Story

INVESTING IN

When it comes to investing, Gary L. Pilgrim is no piker. With more than two decades of money-management experience, he has seen his share of investment fads and bubbles, and he does worry about whether investors' passion for high-tech stocks is getting out of hand. But his qualms are overcome when he and his colleagues at Pilgrim Baxter & Associates troll the stock market for the companies with the best earnings prospects. Nearly two-thirds of the companies that jump the hurdles and make it to their best-buy list are tech companies. "I don't set out to buy technology companies," says Pilgrim. "I buy earnings engines."

> "I don't set out to buy technology companies," says money manager Pilgrim, whose best-buy list is nearly two-thirds tech. "I buy earnings engines"

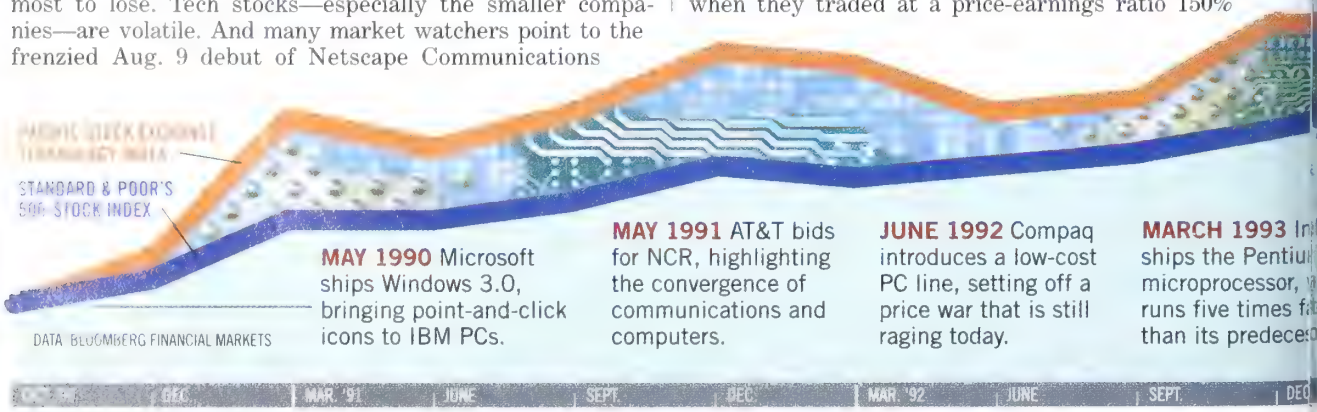
After nearly five years of outpacing a vibrant stock market, technology stocks are still out in front of the pack. Since the bull market took off in October, 1990, the Standard & Poor's 500-stock index has delivered a total return of 112%, including dividends. The Pacific Stock Exchange Technology Index—a broad-based measure of 100 technology companies—has logged a nearly 300% gain during the same period. Since the beginning of the year, the tech index has soared 46%, more than double the S&P increase. In the past few weeks, the S&P has suffered a slight sell-off. The tech index is still working its way higher.

Of course, the stock market, having risen for nearly nine months without a pullback, is overdue for a correction. And if the market in general takes a spill, tech stocks have the most to lose. Tech stocks—especially the smaller companies—are volatile. And many market watchers point to the frenzied Aug. 9 debut of Netscape Communications Corp.—in which investors at one poi valued a 16-month-old company with a nualized sales of $32 million and no pro its at $2.7 billion—as a sure sign tha tech stocks were peaking.

For these reasons, investors need proceed cautiously, being careful neithe to put all their money into a few stoc nor to invest it all at one time. A while technology stocks can turbocharg an investment portfolio, no portfol should be exclusively in tech stocks.

To the skeptics, the love affair wit tech stocks is reminiscent of the ear 1990s mania in biotechnology stock which ended in a bust. But there's only superficial similarity. Most of the biote companies were years away from earnin a penny. In contrast, "most of the te companies coming public are already pro itable or turning the corner into profitab ity," says Paul G. Wick, portfolio mana er of the Seligman Communications Information Fund, the top-performin mutual fund for the last one-year and five-year periods.

Nor is the current boom a replay of 1983's superheate market for technology stocks. "Then, the PC was new, a everybody was trying to sell them to the world before w knew how to use them," says John C. Levinson, who runs tech-stock hedge fund at Lynch & Mayer Inc. Today, the is ubiquitous and the money is in developing devices, pro ucts, and services that enhance PC performance a expand its uses. Levinson further maintains that hig tech stocks today are cheaper than they were in 198 when they traded at a price-earnings ratio 150%



IGH TECH

er than the S&P p-e. Now, they're only 60% higher. hould tech stocks sell at a premium above the overall ket? You bet. Consider the forces behind those valuations. entire technology sector is riding a wave so dynamic and owerful that it will transform society and the economy no dramatically than the railroads and automobiles did in day. The wave keeps rolling thanks to a blend of falling es for semiconductors—the brains of the computer—and rter software that gives the computer more scope and es it easier for people to use. Not only is the PC omni- ent in business but it is also now becoming an appliance he home. The revolution spurred by cheaper chips and e powerful software goes way beyond the PC, ranging automobiles to washing machines.

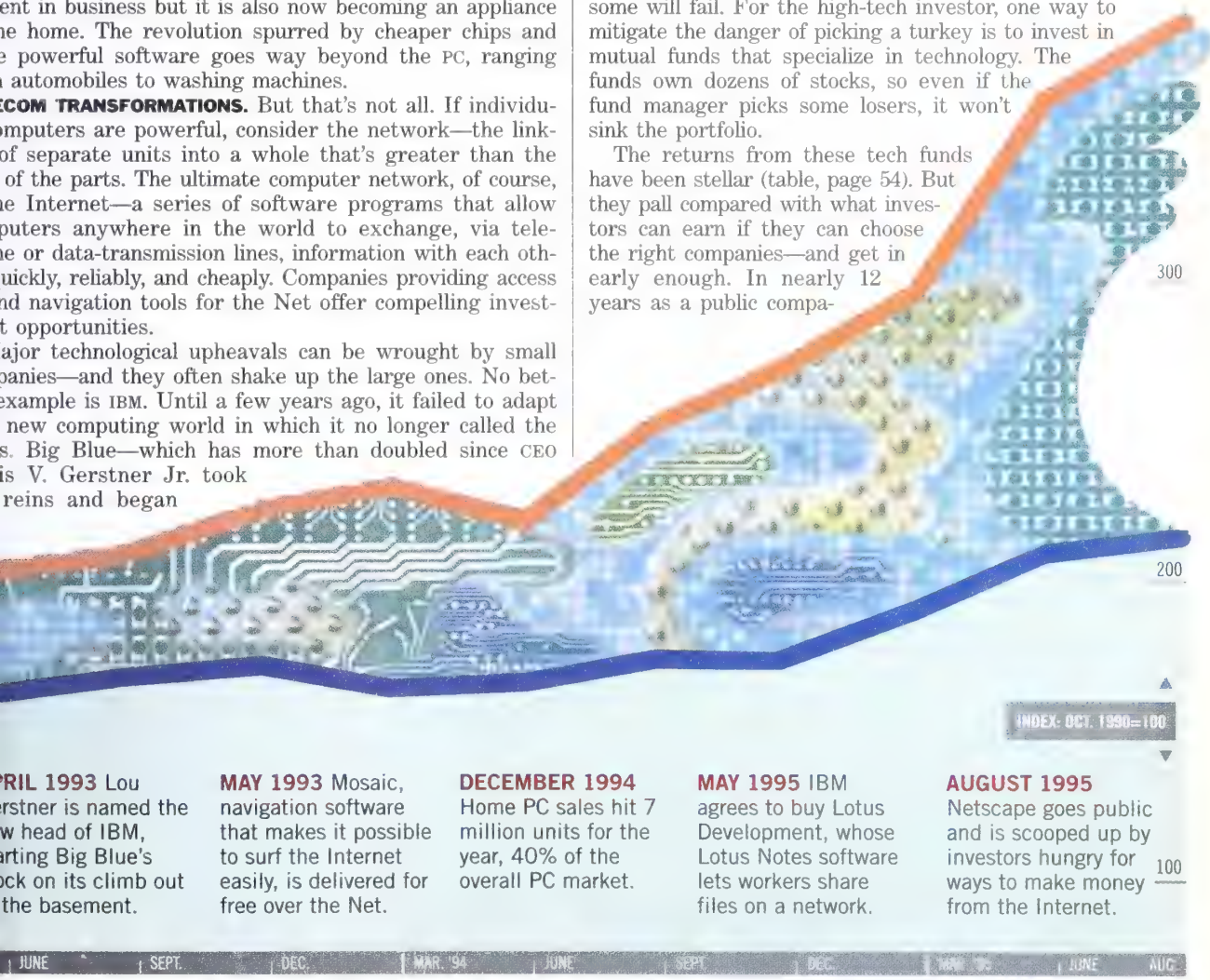
ECOM TRANSFORMATIONS. But that's not all. If individu- omputers are powerful, consider the network—the link- of separate units into a whole that's greater than the of the parts. The ultimate computer network, of course, he Internet—a series of software programs that allow puters anywhere in the world to exchange, via tele- he or data-transmission lines, information with each oth- uickly, reliably, and cheaply. Companies providing access nd navigation tools for the Net offer compelling invest- t opportunities.

ajor technological upheavals can be wrought by small panies—and they often shake up the large ones. No bet- example is IBM. Until a few years ago, it failed to adapt new computing world in which it no longer called the s. Big Blue—which has more than doubled since CEO is V. Gerstner Jr. took reins and began revamping the company—still makes an intriguing investment play.

Technology is transforming telephone companies as well. AT&T and Bell Atlantic Corp. are trying to make themselves the leading players on the Information Superhighway. The telecommunications deregulation bill, if enacted, would let them into new technology markets. These giants may opt for the fast lane—acquiring other high-tech companies.

While there's no question that a broad range of tech companies will thrive, many will struggle and some will fail. For the high-tech investor, one way to mitigate the danger of picking a turkey is to invest in mutual funds that specialize in technology. The funds own dozens of stocks, so even if the fund manager picks some losers, it won't sink the portfolio.

The returns from these tech funds have been stellar (table, page 54). But they pall compared with what investors can earn if they can choose the right companies—and get in early enough. In nearly 12 years as a public compa-



PRIL 1993 Lou erstner is named the w head of IBM, arting Big Blue's ock on its climb out the basement.

MAY 1993 Mosaic, navigation software that makes it possible to surf the Internet easily, is delivered for free over the Net.

DECEMBER 1994 Home PC sales hit 7 million units for the year, 40% of the overall PC market.

MAY 1995 IBM agrees to buy Lotus Development, whose Lotus Notes software lets workers share files on a network.

AUGUST 1995 Netscape goes public and is scooped up by investors hungry for ways to make money from the Internet.

Funds or stocks? Returns from tech funds have been stellar, but Cisco is up 29 times in less than six years

ny, Compaq Computer Corp. stock is up by a factor of 35. Think that's something? Look at Cisco Systems Inc., a manufacturer of networking gear. Its stock is up nearly 29 times—in less than six years. What's common to both companies—and to all successful tech stocks—is that earnings grew at an even higher rate than the stock price. "What keeps me in [tech stocks] is real strong earnings growth," says Harry Lange, portfolio manager of the Fidelity Select Technology Fund and chief technology analyst for the mutual-fund giant. "As long as earnings keep growing, stocks should at least keep up with earnings growth."

Cover Story

Still, making big bucks is no layup. Investors can improve their results by following these guidelines:

If you can't explain what the company makes or sells, you probably shouldn't buy the stock. "It has something to do with the Internet" is not a good reason to buy. Then, you have to ask whether the company's strategy makes sense. For instance, a company that planned to charge $50 a pop for Internet browser software might not be a good investment, since Netscape is giving its browser away.

HIGH-TECH MUTUAL FUNDS

Technology funds are a way to plug into the high-tech boom. The No. 1 performer, Seligman Communications & Information Fund, recently closed its doors to new investors. However, there are funds with good track records that are still open.

Fund	Total return*		
	Year-to-date	One-year	Five-year
ALLIANCE TECHNOLOGY A	52.7%	97.7%	29.3%
FIDELITY SELECT TECHNOLOGY	47.2	65.4	28.8
INVESCO STRATEGIC TECH.	36.4	53.4	25.5
JOHN HANCOCK GLOBAL TECH. A	54.7	79.4	21.3
KEMPER TECHNOLOGY A	42.8	64.6	17.4
T. ROWE PRICE SCIENCE & TECH.	47.6	79.4	28.5

*Appreciation plus reinvestment of dividends and capital gains, before taxes. Year-to-date figures through Aug. 14. One-year and five-year, through July 31. Five-year returns are average annual returns.

DATA: MORNINGSTAR INC

None of these companies exists in a vacuum. They all compete, and the best companies are those with No. 1 or No. 2 positions in their market niches. Compare the company with its competitors. The management team is crucial. The best product won't win if the management can't provide marketing, distribution, and customer-service support.

ARE THEY LOWBALLING? Sales and profits are what drive stocks. Are the revenue-and-profit estimates reasonable? It's wise to be skeptical of forecasts from people who are trying to promote stocks. But Lynch & Mayer's Levinson says that nowadays companies are often lowballing their forecasts. That way, they're less liable to anger shareholders if they fall short and more likely to win kudos from the Street when they beat expectations. And while you're considering the financial statement, check the balance sheet—the less debt the better. You want a company that can use its cash to invest in the business, not to make interest payment

You may have picked a great company, but then the cr ical question is: Does the price already reflect the growth p tential? One way to gauge this is to look at two key el ments: the price-earnings ratio, based on the next fisc year's profit outlook, and long-term earnings growth forecas As a rule, don't buy a stock at a p-e ratio that's high than its projected five-year earnings growth rate. Go back Cisco. Its p-e based on next year's earnings is 25.8—belo the five-year expected earnings growth rate of 32% a year. Likewise, IBM looks like a buy. Big Blue is selling at a p-e of 9.6, but it has a forecasted growth rate of 12.6%.

This rule of thumb doesn't work neatly with all companies. Netscape, for instance, is so new that analysts have not yet started forecasting its earnings, and the business is so new that forecasts are less reliable than for an IBM or a Cisco. Nor will the method work well for stocks considered takeover bait: Their p-e's already look higher than the earnings growth rate, but the stocks could still climb if a takeover war breaks out.

But takeovers are the exception. Since the success of these high-tech investments depends on the durability of earnings growth, keep an eye on them to make sure the companies deliver the profits. A delayed product introduction can quash a quarter's earnings, and if it happens, you may have to reevaluate your investment. Remember, in the end you're not buying tech stocks but "earnings engines," and you only want to own those that are firing on all cylinders.

By Jeffrey M. Laderman in New York, with Geoffrey Smith in Boston

THE TECH INVESTOR'S RULES OF THE ROAD

KNOW THE COMPANY

If you can't explain in layman's terms what the company makes or sells, you probably shouldn't invest in it.

LOOK TO THE FUTURE

What are the prospects for sales and profit growth? Is the company well positioned to take advantage of important trends, such as the expansion of the Internet?

EVALUATE THE MARKET

The company should command the No. 1 or a strong No. 2 position in its market niche. The product or service should be different enough that the company doesn't have to compete on price alone.

MIND THE FINANCIALS

The less debt the better. High-tech companies can burn a lot of cash developing new products and opening new markets. The company should follow conservative accounting practices.

RATE THE MANAGEMENT

A solid management team is a must. It's a plus if managers own at least 30% of the stock or have a significant portion of their compensation tied to the company's long-term success.

BUY AT A GOOD PRICE

Buy stocks that are selling at a price-to-earnings ratio that is less than the company's projected earnings growth rate. Be wary of those selling at a p-e in excess of their growth rates.

WATCH YOUR INVESTMENT

If the market's going up and your stock isn't, that might signal trouble in the company. A delayed product introduction or an earnings report that's below the Street's expectation are yellow flags. It's time to reevaluate

IG TECH: Don't Overlook ne Goliaths

Jake a quick glance at all the companies racing to digitize the world, and you might think that small is only beautiful but essential. Every k, it seems, there's another entrepreneur waving some new Internet-ed thingamajig as a chorus of eager ture capitalists throws money at . And why not? One of those outfits ld turn out to be the Apple Com-er of the wired world.

But a worldwide surge in computer ing makes some of the oldest and gest names in high-tech attractive estments, too. Even IBM and Digital uipment Corp., out of favor with in-tors for most of the 0s, are Wall Street lings. Both companies seeing profits swell, nks largely to the ıful cost-cutting moves y have made over the t few years. IBM res now sell at 110, up n 64 a year ago. DEC, at 43¾, has traded as h as 49½, more than ble its 52-week low of .

Are these stocks in for tinued growth? Yes, most analysts say—but not without some struggle. While both companies have shored up their core businesses—selling systems to major corporations—neither has strong home computers, for instance.

At IBM, the story is mainly one of keeping overhead costs in line as revenue grows a respectable 8% this year. The company has built strong businesses in consulting and selling electronic components to other computer makers. It is also enjoying unexpectedly strong sales of its AS/400 minicomputer line. On the other side of the ledger, IBM has yet to reverse its losses of market share in PCs and mainframe disk drives. Even so, its current price-earnings ratio of 9.6 makes it significantly undervalued, analysts say.

At DEC, the big story is its first profitable year since fiscal 1990 and a long-awaited surge in sales of machines based on DEC's Alpha microchip—up 66% in the fiscal year ended June 30. One driver: Alpha machines run software from Oracle Corp. extremely fast, helping companies search huge volumes of detailed customer data, for instance. Another boost comes from Microsoft Corp., which just enlisted DEC to help it sell Windows NT to corporations. Lehman Brothers Holdings Inc. analyst Donald Young is particularly bullish on DEC because it now has the leanness of an efficient PC maker.

In terms of clout, no company in the high-tech market can match Microsoft. The software giant dominates both operating systems and applications programs and has consistently delivered 25% aftertax margins. Nothing—not even the threat of federal antitrust action—has slowed the progress of Microsoft's stock, which has jumped from 59 to 98¾ since January, giving the company a market cap of $60.2 billion.

ACTION

MORE IS MORE

Upstarts may get all the attention, but household names like IBM, Microsoft, and Xerox have been posting remarkable returns

"STRONGER THAN EVER." So, how long can this go on? Most analysts predict smooth sailing for the next year at least. With shipments of Windows 95 beginning this month and new forays into online services, consumer software, and client-server network programs, Microsoft should see a 27% jump in earnings for its fiscal year ending next June. Says Paul H. Wick, of Seligman Communications & Information Fund: "Microsoft looks stronger than ever."

The growing hoopla about the Internet is helping some well-established players shine. Sun Microsystems Inc., whose workstations now lag those of Hewlett-Packard and IBM in raw power, is the best example. More than half of the Internet's server computers are Suns, and the company is now making a concerted effort to capitalize on Net fever. It just launched a software scheme called Java that could sweep the Internet and even present a major challenge to Microsoft's power in software. Java programs can run on computers of any brand and help them cooperate across the Internet in new ways. Java "could

STILL GROWING

Large, established companies should not be overlooked. They have unique strengths

Stock	Recent price	P-E ratio*	Est. 5-yr. earnings growth**
IBM (IBM)	110¾	9.6	12.6%
MICROSOFT (MSFT)	98¾	33.5	23.0
DIGITAL (DEC)	43¾	12.5	10.3
SUN (SUNW)	52½	12.7	16.0

*For fiscal year ending 1996 **1995-2000 annual rate

DATA BLOOMBERG FINANCIAL MARKETS, ZACKS INVESTMENT RESEARCH

PHOTOGRAPHY BY JOHN WILKES

be that something that works through the Internet and changes the standing of companies in this industry," says Laura Conigliaro, a computer analyst at Prudential Securities Inc.

Cover Story

Sun is also selling a powerful Internet security scheme called Sunscreen, which can help companies do business privately and safely on the Net. And by yearend, it plans to be back in the workstation horsepower race with a new processor chip called UltraSPARC.

A surprise star in the current market may be Xerox Corp., the quintessential 1960s go-go stock. Xerox has quietly built its digital business to about $4 billion a year, or 26% of its total. And that business, predicts Morgan Stanley Group Inc. analyst Steven Milunovich, should continue growing at more than 20% a year, moving the stock as high a 135, up from 120 today.

Another giant to watch: Electron Data Systems Corp. Soon to be free parent General Motors Corp., the $1 billion computer-services company is f cusing on new high-growth businesse such as electronic commerce and tel communications. And it's poised for m jor worldwide expansion. In compute services, it seems, bigger really is bette

By John W. Verity in New Yo

SOFTWARE: A Money Machine That's 'Firing On All Fronts'

What made William H. Gates III the richest individual in America? What made Netscape Communications Corp. the most sizzling initial public offering in a decade? What fills ordinary investors' heads with dreams of overnight wealth? Software, of course.

No technology investment rewards its winners as handsomely as software, because the profits from a hit product are far greater than from a chip or a computer. It may take millions of dollars to develop a program, but it costs relatively little to crank out millions of disks, producing 15%-to-40% operating margins—a rate of return that is "off the scale" compared with industrial companies, says Richard C. Edwards, an analyst with Robertson, Stephens & Co. So are the rewards for investors: Microsoft Corp. stock has appreciated an astounding 10,000% since it went public in 1986.

No surprise, software companies command high multiples. Even established players, Oracle Corp. as well as Microsoft, sell for more than 30 times earnings. And promising newcomers are often priced out of the ballpark. PeopleSoft trades at more than 50 times projected earnings. Tivoli Systems' price has soared 164%, to $36—a huge 83 times projected earnings—since the company went public on Mar. 3

Rich valuations reflect bot rapid growth—most softwar makers are racking up 20%-t 50% annual revenue growth- and a wave of mergers and a quisitions. IBM's $3.5 billio purchase of Lotus Developme Corp. and Computer Associate $1.8 billion purchase of Leger Corp. have speculators lookin around for the next deal.

Short term, the biggest facto driving software is Microsoft Windows 95. The new opera ing system should kick off buying surge for a whole rang of PC programs. But there's als a long-term trend: As computer become consumer appliances- and the on-ramps to the In Highway—whole new categori of programs are being invente from multimedia games an Web-surfing programs to sof ware that helps companies conduct bus ness electronically. "The software indu try is firing on all fronts," says An Winblad, a partner and co-founder Hummer Winblad Venture Partners.

TO THE NET. One of the hottest areas the consumer market, where compani including Broderbund Software, Edmar and The Learning Co. are seeing sales their "edutainment" titles grow by 30 to 50%. The trick: finding makers of qua ity programs, but without the sky-hig valuations that often go along with ther

Another bright spot is client-serve

STILL SIZZLING

Software is one of the hottest tech markets, but beware of overvalued stocks. Best bets: companies riding the client-server and Internet waves.

Stock	Recent price	P-E ratio*	Est. 5-year earnings growth**
ADOBE SYSTEMS (ADBE)	59½	22.8	19.0%
INFORMIX (IFMX)	30⅛	31.0	29.7
ORACLE (ORCL)	41⅞	30.7	33.0
INTUIT (INTU)	89⅛	59.8	NA

* For fiscal year ending 1996 NA=not available **1995-2000 annual rate

DATA: BLOOMBERG FINANCIAL MARKETS, ZACKS INVESTMENT RESEARCH

ware. These programs let compa-
s "downsize" from mainframes to
e flexible networks of PCs and serv-
omputers. Budgets for client-server
tems are growing 70% a year, says
l V. Cubbage, an analyst with Data-
st. That's buoying the stocks of com-
ies such as PeopleSoft Inc. and Baan
Database software leaders Oracle
Informix Corp. are among the chief
eficiaries. Oracle's stock has risen
% in five years, while Informix' has
ged some 3,400%. Another hot seg-
nt: programs to manage the grow-
tangle of computers and networks,
market that propelled Tivoli to
e. The latest entrant: Novadigm Inc.
ublic offering this month put its val-
at some 15 times revenues.

Lush rewards come with major risks.
ce D. Smith, an analyst with Mor-
Stanley Asset Management Inc., says
steepest valuations are warranted if a
ware maker has dominant market
re, or the chance to control key stan-
ds. Microsoft got to the top by defin-
the software standard for operating
systems—first MS-DOS, now Windows. One reason Netscape took off on day one is investor confidence that it will set the software standard for the growing Internet market.

Few companies will wind up setting such standards. But virtually every player in software is jumping onto the Inter-

ACTION

ER SURGE
t-term, the
est factor
ng the indus-
s Windows 95.
ould boost
ding on a
le range of
ications

Like the personal computer in the
0s, it could spawn a multibillion dollar
rket. There's demand for "browsers"
iew material on the World Wide Web
well as for the behind-the-scenes pro-
mming needed to help businesses set
shop on the Net, keep track of billing,
ke transactions safe, and cultivate vir-
l communities online. That's where
tscape expects to strike it rich: its
ernet server programs sell for thou-
ds of dollars while it mostly gives its
wser away.

There are hundreds of Net software
efuls, and most are still tiny and pri-
ely held. But any one of them—Verm-
, Spider Technologies, Connect, or
en Market—could be the next hot IPO.
now, that leaves few sure bets. Well,
ybe one or two. William Gurley, a
n analyst with CS First Boston Corp.,
ommends Federal Express Corp. Af-
all, someone will have to deliver all
goods ordered by cyber-shoppers.

By Amy Cortese in New York

ONLINE: Cyberspace Is the Klondike of High Tech

The mad rush into cyberspace makes online services potentially the sweetest sweet spot in high-tech investing. "It's a gold rush," says Steven L. Eskenazi, principal analyst for new media at Alex. Brown & Sons Inc.

Trouble is, there aren't that many pure plays in the Internet and online services. Outfits such as Prodigy Services Co. and CompuServe Inc. are part of large corporations whose stocks don't fully reflect the online surge. And many of the startups capitalizing on the Internet have yet to go public. Little wonder, then, that investors go overboard when shares in a company such as Netscape Communications Corp. hit the market.

What to do until there's another Netscape? For many investors, America Online Inc. has been a great way to play the cyberspace race. As the company has pulled into the lead in online services, its shares have soared from 17⅞ to 64¾ over the past year. Despite periodic jitters about competition from the Internet's World Wide Web, analysts still recommend AOL, which is adding 250,000 subscribers a month. They expect earnings of $38 million, compared with a $34 million loss for fiscal 1995. Eskenazi says the stock could hit $100 in the next year.

But while AOL may be the online king for now, the future may be with the Internet. With the number of consumers using the Web expected to hit 2.8 million this year and 11.2 million by 1998, companies such as Netscape that sell Web software are poised for enormous

SHOWING PROMISE

Everyone will need access to the Information Highway, but not all the providers are instant hits in the race to log people on.

Stock	Recent price	P-E ratio*	Est. 5-yr. earnings growth**
AMERICA ONLINE (AMER)	64¾	50.5	47.4%
BOLT BERANEK & NEWMAN (BBN)	35⅛	LOSS	17.5
UUNET TECH. (UUNT)	42¾	217.5	NA
PERFORMANCE SYS. INTL. (PSIX)	19⅞	LOSS	NA

*For fiscal year ending 1996 NA=Not Available **1995-2000 annual rate

DATA BLOOMBERG FINANCIAL MARKETS, ZACKS INVESTMENT RESEARCH

growth. So are the companies supplying Web-access services. Netcom On-Line Communication Services Inc., an Internet access provider, has nearly doubled

Cover Story

in the nine months since its $17 initial offer. More examples: Performance Systems International and UUNet Technologies, which has an Internet partnership with Microsoft. Both went public in May and have seen their share prices jump 31% and 64%, respectively. Neither has much in the way of earnings, but that's to be expected at this stage. Both companies are expanding, doubling the number of cities that will have access. "The ones that keep adding clients are the ones that are going to do best," says Kathleen S. Smith, an analyst for Renaissance Capital Corp. in Greenwich, Conn., an institutional research firm focusing on initial public offerings. "Do look at the bottom line now, look at t top line."

Another hot Net play: Bolt Beranek Newman Inc. in Cambridge, Mass. onetime defense contractor, BBN now se Internet access and Web software to b corporations. Partly on the strength of deal with AT&T announced in July, i shares leaped to 35, from 14⅝ a year ag How's that for a nugget?

By Paul M. Eng in New Yo

COMPUTER HARDWARE: Home PCs Keep Supplying the Juice

What's the best advice for investing in computer hardware companies? Follow the consumer. That's right. While corporate spending on computers—everything from desktops to mainframes—is growing at a steady 8% a year, the U.S. home-PC market is expected to skyrocket 35% this year.

This is the fourth straight boom year for the PC industry, and the good times are expected to last well into next year. What's fueling the trend? A combination of factors, including Windows 95, powerful Pentium chips, Internet wanderlust, and strong international markets. That's why analysts say that at current price-earnings ratios—from 10 to 12—the stocks of top PC companies are still good buys. Dell Computer Corp., for one, is trading at 11 times earnings. Analysts expect the $3.5 billion company, which has benefited from an early emphasis on Pentium-based desktops, to hit $4.7 billion in revenue for its fiscal year ending next January. Earnings are expected to increase 61%, to $227 million, from $140 million this year.

By far, the darling of the PC sector is Compaq Computer Corp. The $11 billion Houston PC maker has seen its stock jump to 53, from 35¼ a year ago. Wall Street is looking for Compaq to earn as much as $1 billion—up from $867 million in 1994—on revenue of $14.1 billion this year. Compaq's biggest gains may come in home PCs, where it plans models with such consumer-oriented features as video and ultrafast modems for speedy Internet access. With 17% earnings growth, analysts say that the stock could easily break $60.

So what are the risks? PC makers can—and do—misjudge demand and supplies of key parts. That's what happened at Apple Computer Inc., whose stock has traded in a narrow 38 to 44 range this year. Because the company could not get the parts to build sor models, it lost sales. Apple's shares al live under the cloud of the Macintos like Windows 95 from Microsoft Cor which could hold down Apple's mark share and put a long-term cap on ear ings. In the past month, 44 analysts ha cut earnings estimates, vs. 19 upgrade according to First Call Corp., whi tracks Wall Street research recommend tions. Still, if Apple gets a handle on pr duction shortfalls, Bear, Stearns & C analyst Andrew J. Neff thinks reven could grow 20%, to $11.1 billion, this ye and net income 53%, to $473 million.

HARD-DISK HUNGRY. Investors also ne to watch for price wars. On Aug. 1 Compaq cut PC prices up to 25%—a mo others are sure to follow. PC makers ha learned to live with gross profit margi of 20% to 25%. But there's little roo for the 30% to 35% cuts Compaq made 1992. If top PC makers start to use pr ing to grab market share, then secon tier players such as Micron Electroni Inc. could get squashed.

Investing in PC-maker stocks isn't t only way to play the PC boom. All those computers need hard drives, a the proliferation of online networks "h the effect of multiplying the number times that data are stored," says W liam J. Miller, CEO of drivemaker Qua tum Corp. Market researcher Intern tional Data Corp. estimates th shipments of PC drives will top 100 m lion in 1997—67% more than IDC pr dicted a year ago. Quantum, which se disks to Apple and other PC makers, sa

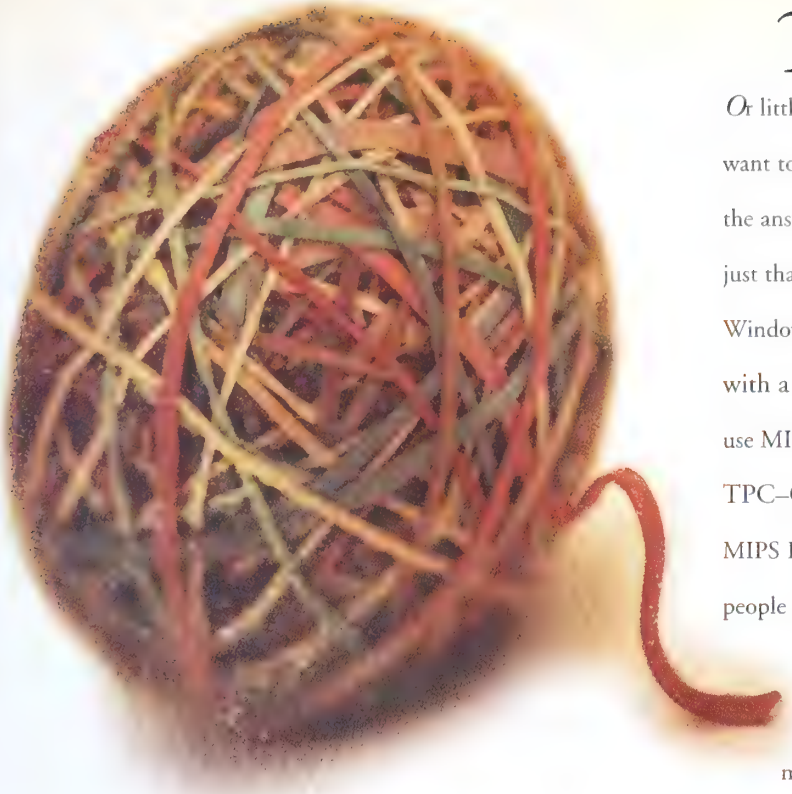
WINNING WAYS

With U.S. home-computer sales expected to skyrocket 35% this year, PCs and storage devices are potential winners in the computer business.

Stock	Recent price	P-E ratio*	Est. 5-yr. earnings growth**
COMPAQ COMPUTER (CPQ)	53	11.8	17.1%
DELL COMPUTER (DELL)	71½	10.9	20.5
SEAGATE TECH. (SEG)	44⅛	8.0	15.2
WESTERN DIGITAL (WDC)	20⅝	7.2	17.3

*For fiscal year ending 1996 **1995-2000 annual rat

DATA: BLOOMBERG FINANCIAL MARKETS, ZACKS INVESTMENT RESEARCH



You could run

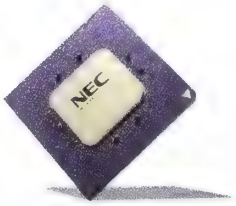
Windows NT without

MIPS, but there are more

imaginative ways

of wasting time.

You could make rubber band balls for instance. Or little paper clip figurines. But why on earth would you want to spend more time getting less done at work? Well, the answer is you probably wouldn't. No one would. It's just that some people may not know that you can run Windows NT™ applications up to ***three times faster*** with a MIPS™ RISC-based system.* Or that you can also use MIPS RISC with UNIX. And that according to the TPC–C benchmarks, the ***top three OLTP systems*** use MIPS RISC. On the other hand, it may be that these people *do* know about all these things, and have just had trouble convincing other people. So if you find yourself in this position, and you think it might help, you could always tell them that you chose MIPS RISC because of its ***exceptional price/performance advantages.*** You might also tell them that you chose MIPS RISC because ***nearly a hundred companies*** have adopted its architecture and it's the ***number one RISC-based general purpose processor*** in production today. That usually works. But if not – if after all that, they still seem unsure – just remember that you still have your imagination. And there will always be plenty of office supplies.



NEC

MIPS RISC

MICROSOFT® WINDOWS NT™ COMPATIBLE

*Compared to a Pentium™-processor-based system

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its sales for the fiscal year ended Mar. 31 jump to $3.4 billion, up from $2.1 billion last year. Quantum's stock, meanwhile, has jumped to 25, from 17 a year ago.

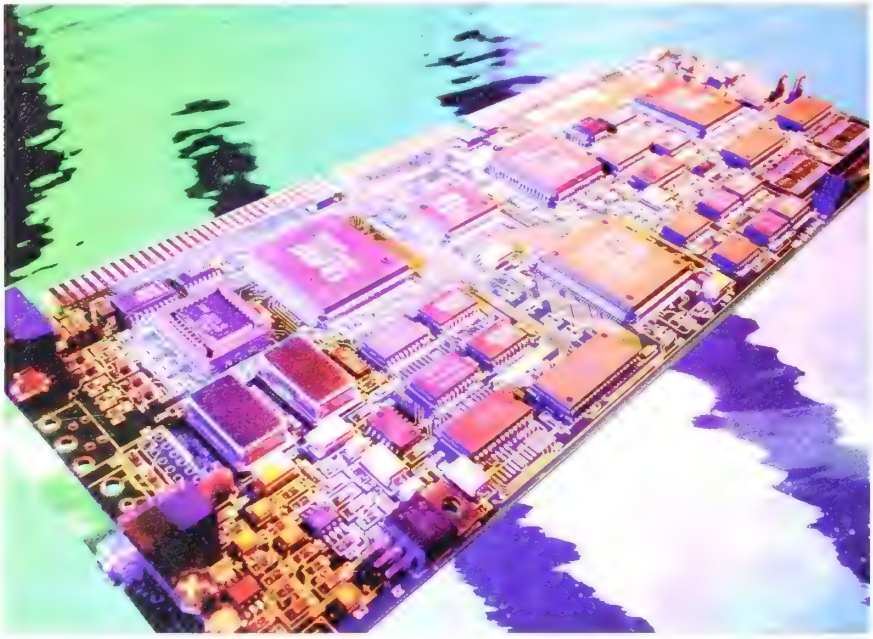
Cover Story

Analysts say $4.5 billion diskmaker Seagate Technology Inc. should see a 20% jump in earnings in the coming year. They figure Western Digital Corp.'s earnings will grow just 8% in fiscal 1996, but will then jump 24% in 1997 when a new line of drives ships. With price-earnings ratios around 8 to 10 for storage companies, these stocks could be bargains. "The market does not appropriately value storage companies," argues Miller.

That's because investors have long memories. Storage stocks have been notoriously volatile, surging and plunging according to product cycles and the fortunes of computer makers. Analysts say earnings are becoming more predictable, and gross margins are up in the 15%-to-22% range from single digits because companies are moving into new areas such as tape drives and software.

Whether it's PCs or disk drives, though, the hardware business has become largely a commodity game. So while the markets boom, only the most skillful players will thrive.

By Ira Sager in New York, with bureau reports



CHIPS: Now, Now, Silicon Investors. Don't Get Giddy

When it comes to betting on semiconductors, the toughest question is where *not* to place your chips. Sales are soaring at just about every publicly traded chipmaker, from Intel to tiny NexGen. On Aug. 10, the Semiconductor Industry Assn. reported that the ratio of new orders to sales rose to a record 1.22 to 1 in July. Sales this year should grow nearly 40%, to $140 billion. "With all this growth, companies that don't do well have only themselves to blame," says industry veteran Gordon A. Campbell, now president of Techfarm Inc., a high-tech incubator in Sunnyvale, Calif.

To be sure, stocks are way up, too, so investors get skittish at any sign of problems. When Intel Corp. reported slimmer second-quarter profit margins on July 18, investors knocked it and most of the technology sector down 10% or more. But there's still plenty of investment opportunity in chips. That's Intel's bet: One factor in its margin decline was massive spending on capacity expansion.

Hands down, the biggest factor is personal computers. Consumers are hungry to play multimedia games and surf the Internet, and they need more powerful PCs to do so. Buyers' enthusiasm is driven in turn by low PC prices, the result of Intel's aggressive price-cutting on its flagship Pentium chips.

TOOTHBRUSHES, TOO. But the boom goes beyond PCs—to cars, electric toothbrushes, and even light fixtures. New technologies are being rapidly adopted in once-lagging developing countries. In just the past 12 months, analyst Daniel T. Klesken at Robertson, Stephens & Co. in San Francisco has raised his chip industry forecast for the year 2000 from $200 billion to $350 billion. Says Klesken: "I don't see a lot of overvaluation in semiconductors."

ACTION

THE NEXT WAV

The hottest new area for investo is in multimedi with its growin demand for chi that can speed up video to near-3-D realis

Strong PC sales are helping two key kinds of chips—memories and microprocessors. Sales of memory chips should grow 70% or so this year. Prices of dynamic random-access memories, which usually drop around 10% a quarter, have actually risen about 5% a quarter for the past several quarters. That helps not only the Japanese and Koreans but also U.S. DRAM makers Texas Instruments Inc. and Micron Technology Inc. Their price-earnings ratios are under 13—far below the industry average. Meanwhile, demand for static RAM for PCs and cellular phones is helping out the likes of Cypress Semiconductor Corp. and Integrated Device Technology Inc.

In microprocessors, the brains of PCs and other electronic gear, Intel is the one to beat. It has 80% of the

IN THE CHIPS

Powered by projected 40% growth this year, chip sales could reach $350 billion by decade's end. These could benefit:

Stock	Recent price	P-E ratio*	Est. 5 yr. earnings growth**
INTEL (INTC)	66⅝	12.9	18.0%
MICRON (MU)	65½	11.7	25.7
INTEGRATED DEVICE (IDTI)	64¼	21.2	23.6
CIRRUS LOGIC (CRUS)	46	27.7	25.3

*For fiscal year ending 1996 **1995-2000 annual rate

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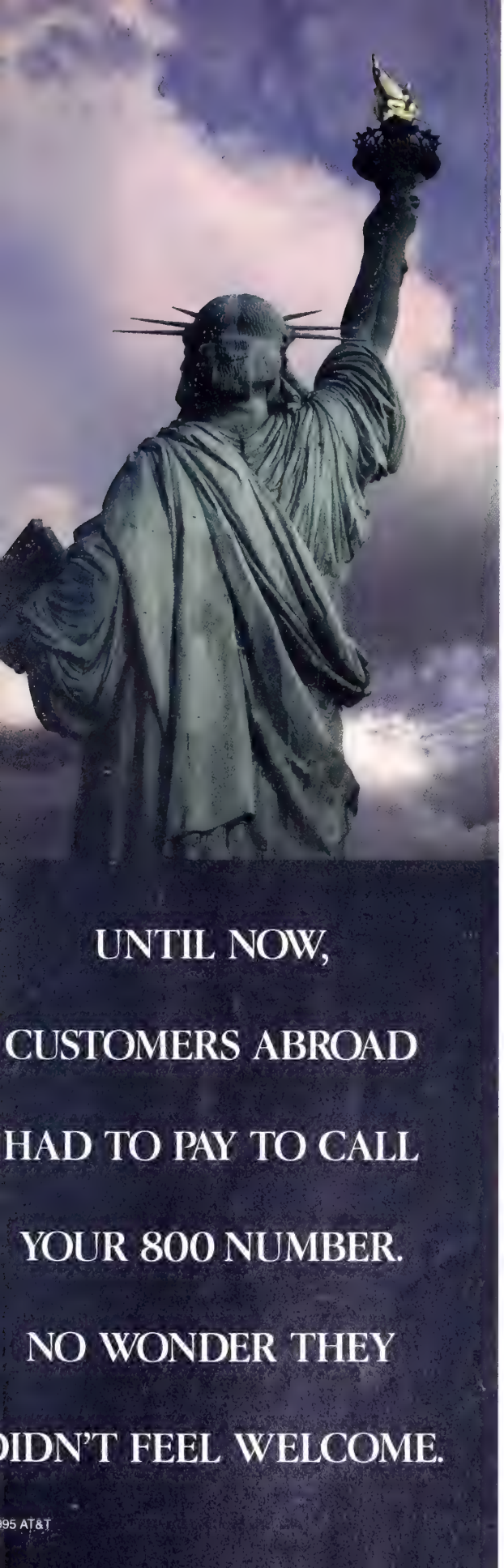

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market and sports a lower-than-average p-e ratio. Rivals include NexGen Inc., Milpitas, Calif., which makes a near-equivalent of Intel's Pentium chip. Although it went public a few months ago and its p-e stands at a heady 27, NexGen claims Compaq Computer Corp. as a future customer, which may help it triple sales in 1996, to more than $250 million.

Cover Story

Where should investors look to catch the next chip wave? The hottest area is multimedia. 3Dlabs, 3Dfx Interactive, and NVIDIA, all privately held, are focusing on chips that accelerate video to near-three-dimensional realism. Integrated Information Technology Inc. in San Jose and Microunity Systems Engineering Corp. in Sunnyvale are betting on "mediaprocessors" for video and communications. Until those companies go public, investors can buy into the trends through companies such as Brooktree, Cirrus Logic, S3, and C-Cube Microsystem

Despite the risks—such as t chance that a PC slowdown could wall memory-chip makers—chips remain t bedrock of the electronics industr Says Edward R. McCracken, chief e ecutive of workstation maker Silic Graphics Inc.: "With the billions of d lars riding on silicon technology, I ju wouldn't bet against it." Neither w smart investors.

By Robert D. Hof, with Peter Bu rows, in San Francisco

NETWORK GEAR: A Free-for-all Where Speed Is of the Essence

There are two winning formulas for investing in the supercharged $9 billion computer-networking business. The first: Find a promising player in an emerging market—digital modems, for example. Shares of one such manufacturer, Ascend Communications of Alameda, Calif., rose from $9.25 to $74 over the last year—and are still rated a buy by analysts. The second route is to guess who's a takeover target in the rapidly consolidating industry. Chipcom stock soared 25% on July 28 when 3Com offered $40 a share in stock to buy it to bolster its networking line. Often the hot startup and the acquisition target are the same.

So what network niches are ripe? Any technology that speeds local-area networks (LANS) is a potential winner. Take "LAN switching," a method that gives each computer its own temporary lane on a corporate information highway. The technology's value was obvious last October, when industry leader Cisco Systems swapped $207 million worth of stock to acquire Kalpana Inc., whose annual sales came to less than a quarter of that sum.

The Cisco buy was part of a shopping spree. 3Com, based in Santa Clara, Calif., also snapped up Synernetics and NiceCom. Bay Networks bought Centillion Networks, and FORE Systems plunked down $24 million for newcomer Applied Network Technologies—before the company posted any sales. The market endorsed these acquisitions, and all four players continue to trade at high multiples. But with excellent growth prospects, some analysts argue that their shares are still not overpriced.

The next niche to open up will be asynchronous transfer mode (ATM), a technology that can transmit video and voice as well as data. FORE, Cascade, and Stratacom are all hot ATM pla today, even though widespread use m be a decade off. ATM startups Gra Junction Networks in Fremont, Cali and Xylan Corp. in Calabasas, are ey ing initial public offerings.

Another place where speed is of t essence is connecting to the Intern and other outside networks. In ad tion to Ascend, which makes digit modems for use with high-speed IS phone lines, there's also U.S. Robotic the No. 1 modem maker (whose sto has more than doubled) and Combine recently acquired by Cisco Systems.

SECOND-BEST GOODS? Of course, rap change has a way of turning toda stars into yesterday's news. Eric Hi den of consultants Yankee Group R search Inc. warns that highflier Cab tron Systems Inc. is losing ground 3Com. Cabletron CEO Robert Levi begs to differ. He argues that comp nies acquiring second-tier players do get the best goods.

That may be open to debate. B one piece of advice most network an lysts agree on: Don't be put off by hi price-earnings ratios. Despite tradi at 22 times earnings and higher, comp nies such as Cisco, Bay Networks, a 3Com aren't overpriced when you co sider their rapid growth, says ventu capitalist Geoffrey Y. Yang at Instit tional Venture Partners in Menlo Pa Calif. Meanwhile, the network indu try buying binge shows no sign of p tering out. And that leaves stock-pic ers plenty of places to connect.

By Gary McWilliams in Houst and Neil Gross in New York

STARS AND STRIVERS

They may not be cheap, but highfliers have headroom to grow.

Stock	Recent price	P-E ratio*	Est. 5-yr. earnings growth**
3COM (COMS)	74⅛	24.5	29%
CASCADE (CSCC)	46⅞	53.0	50
FORE SYSTEMS (FORE)	36	78.0	47
ASCEND (ASND)	67⅜	62.0	40

*For fiscal year ending 1996 **1995-2000 annual rat

DATA: BLOOMBERG FINANCIAL MARKETS, ZACKS INVESTMENT RESEARCH, NELSON PUBLICATION

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TELECOMMUNICATIONS: Hold On, the Gates Are Swinging Open

In the heady world of high-tech stocks, phone companies are a problem. By rights they should be very much a part of the boom in high tech. Virtually every online transmission, every interactive transaction, every Internet access call is carried over a phone line—and the phone companies collect the tolls. They have nice steady earnings growth and pay a nice steady dividend. Yet telco stocks have underperformed the market in the past three years, and their five-year earnings growth forecasts rarely exceed 11%.

The heart of the problem is regulations. The phone companies are shackled by a 60-year-old law that keeps them out of lucrative new markets and, in the case of the local carriers, caps their profits. Now, Congress is poised to pass a bill this fall deregulating the industry. Long-distance carriers, local phone companies, and cable operators will all be allowed into one another's businesses. Get set for a competitive free-for-all that more than likely will raise all boats.

Picking which boats to put your money on can be tricky, though. Five-year earnings forecasts don't really reflect the upside potential for some former utilities to emerge as high-tech powerhouses. The best investment strategy now: Determine which companies are most prepared for competition.

Consider AT&T. The stock has underperformed the market all year, reflecting price-cutting in the long-distance market, dilution from the McCaw Cellular takeover, losses in its computer division, and legislative uncertainty. But AT&T controls 60% of the U.S. long-distance market, owns the largest U.S. cellular-phone operator, is the world's second-largest telecom-equipment maker, and just announced an aggressive Internet-access strategy. "We really do not consider AT&T a phone company anymore," says Richard S. Bodman, AT&T's chief strategist. "We moved into the Information Highway industry a long tin ago." The market has yet to be co vinced, but analysts say AT&T stock h upside potential of 8% to 11%.

Sprint Corp., No. 3 in long distance, also a good bet, thanks to its aggressi pursuit of new businesses. It's sheddi cellular operations so it can pursue partnership with cable-TV operators build new wireless networks. No. 2 M Communications is more problemat since it has yet to diversify.

Then there are the Baby Bells, seven seemingly identical local monopolies. Which will do best? In the next couple of years, "the biggest difference is rural vs. urban," says Richard G. Klugman of PaineWebber Inc. "The more urban their regions, the more competition they're likely to face." Thus, California-based Pacific Te sis Group and the Northeast's Nyn Corp. have the worst regions, while S Communications and U S West ser wide-open country. Texas-based SBC al has a favorable state regulatory enviro ment. Analysts predict that SBC's sto could rise 15%—should deregulation pa

ACTION

LOCAL HERO

[illegible] least, faces few urban rivals, a [illegible] yet its p-e is lo

The local carrier with the best tu may be GTE Corp. Analysts estima its earnings will rise at a sluggish 7.5 annual rate over the next five yea But GTE serves few large cities, is le hampered by federal regulation, a has strong global and wireless oper tions. The stock, trading at some 20 below the market, is rated a buy J. P. Morgan & Co. and Merrill Lyn & Co.

If you want more reward than t giants can offer, look at some of the 5 or so secondary long-distance carrie WorldCom, for exa ple, the fourth-lar est long-distance ca rier, has only 4.9% the market, but a alysts see big opp tunities coming i way. Once the Be are allowed into lo distance, they'll ther buy capacity a company. Worl Com's stock has r lied 25% this year the prospect. Loo like a high-tech pl

By Catherine Arn in New York

PHONE CALLS

Telecom deregulation is about to set off a free-for-all in local and long-distance calling. These companies are well-positioned for the fray.

Stock	Recent price	P-E ratio*	Est. 5-yr. earnings growth**
AT&T (T)	51¼	13.3	11.1%
GTE (GTE)	36¼	13.1	7.5
SBC COMMUNICATIONS (SBC)	48⅝	14.4	9.1
SPRINT (FON)	34¼	12.1	11.4
WORLDCOM (WCOM)	28	16.1	19.5

*For fiscal year ending 1996 **1995-2000 annual rate

DATA: BLOOMBERG FINANCIAL MARKETS, ZACKS INVESTMENT RESEARCH

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INVESTIGATIONS

HOW ARE YOU VOTING? WHAT ARE YOUR STOCKS?

Members of Congress often invest in companies whose fortunes they could influence

GOOD CHOICE: *Senator Bond's teenage son quadrupled his investment in McDonnell Douglas*

When the Senate Appropriations Committee announced its plan for next year's defense outlays in July, McDonnell Douglas Corp. was a big winner. Included in the blueprint was $880 million above what President Clinton has requested for another 22 jets manufactured by the St. Louis-based company. And no small thanks went to Senator Christopher S. Bond (R-Mo.), a member of the Senate subcommittee that sets defense spending and a key champion of the aerospace company's defense contracts.

Among the happy McDonnell Douglas shareholders was Sam Bond—the senator's 14-year-old son. Back in May, 1993, the younger Bond, with advice from his father, scooped up somewhere between $1,001 to $15,000 worth of McDonnell Douglas stock when it was around 20. Today it is over 80. A spokesperson for Bond says that the younger Bond has been buying stock—with advice from his father—as a learning experience. He insists that there is no conflict of interest, adding that young Sam Bond "is not privileged to any information."

Investments such as Bond's may raise eyebrows, but they are hardly unique. An extensive BUSINESS WEEK review of financial disclosure filings by members of Congress reveals that many elected officials or their relatives routinely invest in or even actively trade stocks in industries under congressional scrutiny or about which they have special knowledge. Under current law, members are only required to disclose their investments and transactions, as well as those of their immediate families, once a year. Even then, the disclosures are in broad dollar ranges. None of this activity is illegal, but critics say the current rules give members too much opportunity to profit from their positions. "The ethics rules are so vague th members can say th what they are doing not specifically proh ited," says Michael Calabrese, a director the public intere group Congress Watc

Many members a their families take f advantage of this unf tered ability to inve Senator Lauch Fa cloth (R-N. C.), wh 1994 filing is not y available, held mo than $850,000 worth North Carolina-bas banking stocks at t end of 1993 while se ing on the Sena Banking Committe And Senator Da Bumpers (D-Ark.) a his wife have trad stock in Arkansas me producers Tyson Foo Inc. and Hudson Foo Inc. over the past years. During this period, Bumpers w a member of, and eventually chair the subcommittee that sets spendi for the Agriculture Dept., which reg lates such companies.

JUST ASKING. A spokesman for Fa cloth says the senator has asked t Senate Ethics Committee to determi whether his bank holdings could cons tute a conflict of interest. And a spok man for Bumpers says that because subcommittee does not deal with iss that affect individual companies, the vestments don't pose a conflict.

In some cases, members even pu legislation that would directly ben their investments. This February, Se tor Don Nickles (R-Okla.) introduce bill to create tax incentives for the mestic oil and gas industry. At the e of 1994, Nickles also held about $6, worth of stock in energy companies serch Corp. and Unocal Corp. Nick

"They have access to all kinds of information, and they have the power to get it quickly"

s financial advisers handle his investnts independently and insists his dings don't create a conflict of inter- "If someone insinuates that I would to impact policy for that [investnt], that is offensive," he asserts.

Like Nickles, most members contend ir promotion of legislation has nothto do with their investments. Sena- Harry M. Reid (D-Nev.) added to his tfolio of mining properties shortly ore he co-sponsored an industry-supted mining reform bill in 1993. A kesperson denies a conflict of inter- Senator Frank H. Murkowski (Rska) is under fire from environmental ups who say a bill he recently induced would benefit Louisiana-Pacif-Corp., a company in which he and wife hold stock. Murkowski could be reached for comment.

Sometimes members throw their ght around in other ways that apr to benefit their investment portfo- In May, Representative Dave Camp Mich.), along with nine other lawkers, sent a letter to the head of the od & Drug Administration asking the ncy to publicize the results of several studies that found no link between silicone breast implants and connective-tissue diseases. Camp's 1994 filing shows at yearend he was holding more than $500,000 in stock in Dow Chemical Co., 50% owner of breast implant maker Dow Corning Corp. Based in Midland, Mich., in Camp's district, Dow Chemical is facing many lawsuits in connection with the implants. While Congress Watch's Calabrese contends the action may have constituted a violation of ethics rules, a spokesperson disagrees and says the letter had nothing to do with the congressman's investment.

TOUGH RULES. Lawmakers bristle at the notion that they might be using their positions for profit. But employees of the executive branch are under strict conflict rules. Government agency appointees and workers are not permitted to work on matters that could affect their personal financial interests. And many departments have additional restrictions. For example, employees of the U. S. Geological Survey can't invest in companies that lease land administered by the agency.

Congressional ethics rules place virtually no restrictions on investments by members. They require members to disclose their investments and transactions every year. The only strict prohibition bars members from voting on or pushing legislation that benefits a very small group that includes themselves. But if the bill benefits them as members of a larger group—as shareholders, for example—they face no restrictions.

In many cases, members trade in stocks just as those companies are coming under fire in Congress. Information about possible or pending legislation is often well known, making it unlikely that trading based on that information would constitute a violation of insider-trading laws. Still, critics charge that members can use their firsthand knowledge of bills percolating on the Hill to their advantage. "They have access to all kinds of information, and they have the power to get it quickly," says Alex Benes, managing director of the Center for Public Integrity, a watchdog group.

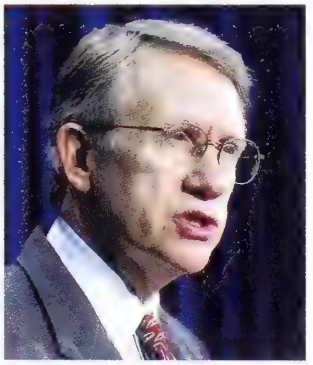
Tobacco stocks are a good example. Gregory W. Boller, a marketing professor at the University of Memphis who has examined congressional stock trad-

Pushing the Ethics Envelope?

SEN. FRANK MURKOWSKI
(R-Alaska)

INVESTMENT At the end of 1994, Murkowski and his wife held between $15,001 and $50,000 in Louisiana-Pacific Corp. stock.

POSSIBLE CONFLICT On July 21, Murkowski introduced a bill that could spur logging in the Tongass National Forest, where a Louisiana-Pacific subsidiary is one of the largest operators.



SEN. HARRY REID
(D-Nev.)

INVESTMENT In April of 1993, Reid paid between $50,001 and $100,000 for an added interest in 57 acres of mining property.

POSSIBLE CONFLICT The following May, Reid co-sponsored a mining reform bill that would have imposed a modest royalty on miners. The move was backed by the industry over more severe proposals.

REP. DAVE CAMP
(R-Mich.)

NVESTMENT At the end of 1994, Rep. Camp held between $500,001 and $1,000,000 in Dow Chemical, which has been sued over silicone breast implants.

POSSIBLE CONFLICT Camp signed a letter asking the FDA to publicize research showing no connection between implants and certain diseases.

SEN. DON NICKLES
(R-Okla.)

INVESTMENT At the end of last year, Nickles held more than $6,500 in stocks in oil and gas companies Enserch and Unocal.

POSSIBLE CONFLICT In February of this year, Nickles introduced a bill to provide tax incentives to the domestic oil and gas industry and to ease regulatory burdens.

DATA BUSINESS WEEK

ing, says 16 members traded in eith Philip Morris Cos. or RJR Nabisco In stock in 1993 as the antitobacco mood Washington began to heat up. The m jority of those trades were sales. Repr sentative Henry Bonilla (R-Tex.) liqu dated a $1,001 to $15,000 holding Philip Morris as House colleague Repr sentative Henry A. Waxman (D-Cali was trying to drum up support for bill restricting smoking in public buil ings. Bonilla's office says his investmen are made by an outside adviser.

Some lawmakers think it's time stop congressional stock trading. March, members of the House Progre sive Caucus introduced legislation th would require members of Congress put personal investments into a bli trust. In a blind trust, the client nev sees how the money is invested. Co gress, however, is unlikely to impo such restrictions. Some members arg that the annual cost of a blind tru often at least 1% of the assets, makes too expensive for members of mode wealth. Others warn that members c suffer large losses if they have no co trol over their assets. Bond is sui PaineWebber Inc. and a former advis for more than $1 million over losses suffered in a blind trust he held un early 1993. PaineWebber declined co ment on the suit. "Am I supposed say because I'm in public service I going to turn everything I've work for over to some person in a brok age office? Baloney," argues Represen tive Dan Burton (R-Ind.) who manag his own $145,000 portfolio.

SIDESTEP. Still, lawmakers are und pressure to voluntarily restrict th trading. Representative Thomas J. B ley Jr. (R-Va.) announced in June th he would put his more than $490,000 assets into a blind trust. The move ca after questions had been raised ab potential conflicts of interest created Bliley's chairmanship of the power House Commerce Committee. And so members, such as Representative H. Zeliff Jr. (R-N. H.), who sold m than $25,000 in stocks when he w elected in 1990, avoid the issue al gether. "People will be looking for thi where you appear to be taking adv tage of your office," Zeliff says. "Y are smart to avoid that."

But Zeliff is clearly in the minor For now, members appear more th happy to deal with the nagging qu tions posed by their investments in change for unrestricted ability to p the market. Unless that changes, the continue pushing—right to the edge.

By Amy Barrett in Washing

TASTE FOR TECH: *Maor is pushing "home banking from your easy chair"*

ANKS

NEW FACE OR BANK LEUMI

alia Maor, Israel's first female bank chief, has big plans

alia Maor has spent a lifetime impressing the people around her. At Hebrew University in the early 60s, "she was a star student," recalls ob A. Frenkel, the Bank of Israel vernor and a former classmate. veryone knew she was going plac- " So it has surprised few of her nds and former colleagues that Maor landed a job few women have ever d—and none in Israel: chief execu- e of a leading bank. Not since Golda ir has a woman wielded so much in- ence in Israel.

Even a banker with Maor's talents l have her hands full. She took over reins on Aug. 1 at $35.1 billion nk Leumi Le-Israel, the country's .2 bank. But with a wave of privat- tion under way in Israel, she must ve fast to boost the bank's perfor- nce if Leumi is to fetch an attractive ce, either in the public market or m a buyer.

CH TO SELL. Leumi was once the pre- inent Israeli bank and even issued country's banknotes early on, but has lagged behind market leader nk Hapoalim since the early 1980s. return on capital for 1994 was a n 6.3%, despite having closed nearly one-third of its 67 foreign branches since 1983. Already, although the government is itching to sell its 85% stake in Leumi, one desirable buyer, financier Edmond Safra, has declined to take control. "I have a lot of faith in her abilities," says one Israeli banker, but "the whole banking system is up for grabs," and that makes Leumi's position uncertain.

Still, Maor, 52, is confident that her plans to emphasize wholesale banking and technology will get Leumi humming again. She aims to reshape foreign operations, slim down the retail bank, and automate huge portions of Leumi's business. "From now on, trade flows and not sentimental reasons will determine where we set up branches," she says. For starters, Maor will downplay such markets as New York, where Leumi lost more than $300 million on soured real estate loans. Instead, the bank has set its sights on the Far East, where trade with Israel is booming. In one of her first acts as CEO, Maor has already cut a deal with a unit of Daiwa Bank Ltd. to cooperate on investments in Israel and Japan.

30-YEAR VETERAN. Developing technological prowess should help as well. Maor has already begun work on building what she calls "home banking from your easy chair." Last year, as deputy general manager, she introduced First Direct, Leumi's personalized telephone banking, which, among other things, allows customers to obtain loan approvals and transfer funds over the phone. Now, says Maor, with costs substantially lower, "we're able to pass on a 20% reduction in service charges to First Direct customers."

A taste for technology comes naturally to Maor, a mother of three who does even her supermarket shopping by telephone and computer. Her husband, Joshua, is head of IBM Israel. And at Leumi, she uses her personal computer constantly.

Maor began her banking career in 1963 as a junior economist at the Bank of Israel. Rising through the ranks, she became supervisor of banks in October, 1982. Maor held that job for five years, despite a banking scandal in 1983 when Israel's largest banks nearly collapsed as a result of massive manipulation of their own shares. The state commission of inquiry criticized Maor for failure to exercise authority over the bankers. But because she was so new to her post, it did not recommend sanctions against her—as it did against many other key figures in the affair. She joined Leumi in 1991.

Running Leumi in a time of flux could be as hard as supervising wayward banks. But Zeev Holtzman, president of Tel Aviv investment bank and consulting firm Giza Ltd., argues that "Bank Leumi is a Sleeping Beauty waiting to be woken up," and that Maor is dynamic enough to do it. Her ideas are already galvanizing the bank. Leumi's slick new TV ads proclaim: "Leumi wants you more." If Galia Maor succeeds, the feeling will be mutual.

By Neal Sandler in Jerusalem

HOW MAOR WILL REMAKE LEUMI

REVAMP FOREIGN OPERATIONS
Target rapidly growing overseas markets, especially in the Far East, while closing branches in New York

EXPAND CORPORATE BANKING
Step up its foreign-trade activity, aiming to position itself for Israel's emergence as a regional financial center

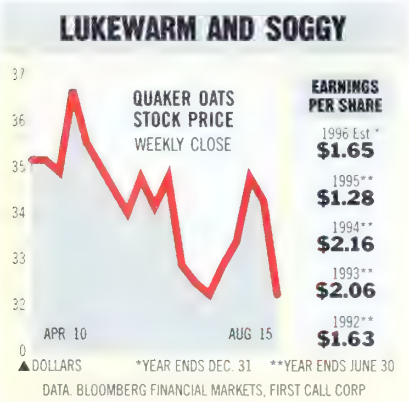
BROADEN TECHNOBANKING
Add electronic home banking to its consumer offerings, to reduce its reliance on costly branches

DATA: BUSINESS WEEK

BY GENE G. MARCIAL

QUAKER MAY START FEELING ITS OATS

Quaker Oats (OAT) is suffering from fatigue—takeover-speculation fatigue, that is. And the stock reflects it. After hitting 42 last year, in part because of buyout rumors, the shares have sagged to 33. "Most of the takeover premium the stock enjoyed last year has now dissipated," argues Michael Mauboussin, an analyst at CS First Boston. But even Mauboussin—who recently turned bullish on Quaker for fundamental reasons, not takeover appeal—concedes that he can't discount a buyout finish.



Whispers are that a soft-drink outfit—(not Coca-Cola, which adamantly denies interest)—and a packaged-food company have held talks with Quaker for some kind of deal. One buyout pro at a New York investment bank puts Quaker's buyout value at more than $50 a share.

Another investment-bank source says both suitors have the resources to deliver a credible offer. The drink maker is thirsty for Snapple Beverages Div., acquired by Quaker in 1994 for $1.7 billion, and Gatorade, a highly popular sports drink. This pro says that the soft-drink party would sell off many of Quaker's snack and packaged-food operations. But the food contender wants to hang on to most, if not all, of Quaker's units. Other Quaker products are breakfast foods—such as cereal, waffles, Aunt Jemima syrup, and rice cakes—along with pasta, frozen pizza, and rice (Rice-A-Roni).

One analyst argues that the more Quaker stock drops, "the more the company becomes vulnerable to a takeover raid—friendly or not." Quaker gets no respect on Wall Street. "Sentiment is universally negative," notes Mauboussin. Of 15 brokerages that follow Quaker, he says, half have a sell or "underperform" opinion on it.

Mauboussin thinks this bearishness offers a buying opportunity. In particular, Snapple is undervalued by the Street. Mauboussin notes that the stock price implies Snapple is worth $180 million, or 3.5 times estimated 1996 earnings before interest, taxes, and depreciation. He says the market valued Snapple at $3.9 billion in the spring of 1994. True, Snapple's earnings have disappointed many investors. "But the groundwork is being laid for improved performance," partly by integrating Snapple with Gatorade more efficiently, says the analyst.

FISSION AHEAD AT PERKIN-ELMER?

A world leader in analytical instruments and life-science systems, Perkin-Elmer (PKN) is under pressure—to analyze itself better. Specifically, some big, very unhappy stakeholders have been on the company's case to sell all or part of itself.

The betting is that Perkin-Elmer will soon announce the sale of its profitable life-science systems—to appease the likes of George Soros and Leon Cooperman, who heads Omega Advisers, a fast-growing $2 billion hedge fund. A sell-off would help thwart any takeover attempts. One investor says Perkin-Elmer has had talks with potential buyers of its life-science systems.

Chairman Gaynor Kelley says that the company is studying all "strategic alternatives." He noted that, although life-science operations did well last year, he was disappointed with the performance of the instruments business.

Perkin-Elmer's Applied Biosystems Div., which supplies equipment for life-science research, has an alliance with Hoffman-La Roche to develop polymerase chain reaction technology for the amplification of DNA. Perkin-Elmer's instruments, which determine the composition of chemical substances, are widely used in government and educational research.

Perkin-Elmer's earnings and sales in the fiscal year ended June 30 were below the Street's projections. It earned $1.57 a share for fiscal 1995, down from last year's $1.66. Revenues were flat, at $1.06 billion, vs. last year's $1.02 billion.

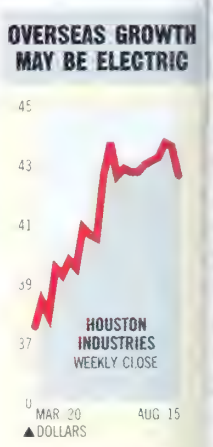
And Perkin-Elmer stock, now at 32, has been a laggard, even as the market broke records. Some analysts put its breakup value at $50 a share.

HOW BRITAIN COULD JUICE UP HOUSTON

Now, it's the power companies' turn in the takeover game: PECO Energy is going after rival Pennsylvania Power & Light in a hostile $3.6 billion offer. And Union Electric has agreed to merge with Midwest utility Cipsco (page 36). But it's the overseas market that is beckoning Houston Industries (HOU), the holding company for Houston Lighting & Power—and a cash-laden outfit: In January, it sold its cable-TV unit, KBLCOM, to Time Warner for $2.4 billion in cash and stock. Houston Industries reaped about $700 million in cash from the deal.

Some investment bankers say Houston Industries is seriously considering buying a utility in Britain that's making good money, with revenues last year of about $2 billion. "Number-crunchers at Houston Industries have been busy sizing up the British utility," one analyst says—which would provide a tremendous vehicle in the utility's quest to expand in Europe.

Already, through one of its subsidiaries, Houston Industries Energy, has gotten involved in various power-development projects in Argentina, Brazil, and India. In the U.S., Houston Industries generates and distributes electricity on the Gulf Coast.



Houston Industries has also joined Power to Brazil, a consortium comprising two private Brazilian utilities and a group of investors, to bid for a stake in Brazil's state-run power-generating company, which the government is trying to privatize.

One big investor in Houston Industries says of such acquisitions: "In the utility business, the overseas market is where the growth will be."

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http://www.raytheon.com

Silicon Graphics
http://www.sgi.com

Sun Microsystems, Inc.
http://www.sun.com

Sybase
http://www.sybase.com

Texas Instruments
http://www.ti.com

Unisys Corporation
http://www.unisys.com

Wall Street Information
(div. of Nat'l. Corporate Svcs.)
http://www.natcorp.com/ir

Zenith Data Systems
http://www.zds.com

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TORT REFORM

VALLEY OF THE POLS

High tech's heavy hitters build a war chest for tort reform

It's a Tuesday afternoon in Northern California, and Thomas A. Proulx has just made a quick change. Gone are his workaday shorts and polo shirt, replaced by a conservative blue suit and wingtips. As he navigates his dark green BMW down the driveway of his $3 million home, past the electric gate and onto the streets of swank Atherton, Proulx is on an unlikely mission. The 33-year-old author of Quicken, the best-selling personal-finance software in the world, co-founder of $194 million Intuit Inc., and millionaire many times over is off to beg for money.

Since leaving Intuit for good last fall when Microsoft Corp. looked like it might take over, Proulx has been raising funds to promote a trio of state ballot initiatives in next March's primary election. So far, Proulx has wrung $2 million in gifts and loans from his network of high-tech heavy hitters for the statewide signature drive. Intel tops the list with a quarter of a million dollar advance. This Tuesday, the man he has driven to see, J. Burgess Jamieson, a technology venture capitalist with Menlo Park (Calif.) Sigma Partners, offers a $100,000 loan.

EASY PREY. It isn't just his reputation and boyish style. Proulx is promoting something Silicon Valley very much wants: litigation relief. Between 1990 and 1993, 75 shareholder class actions were filed in the Northern District of California, two-thirds against high-tech companies, according to Cresskill (N.J.) *Securities Class Action Alert*. The computer industry's trade group, the American Electronics Assn. (AEA), says more than half of the top 150 Silicon Valley companies have been sued in the past five years.

High-tech companies are easy prey, says the AEA, since the volatility of their stocks opens them up to shareholder accusations of misrepresentation. "This issue has become more important to the high-tech community than almost any other," says John G. Adler, CEO of Adaptec Inc. in Milpitas, Calif., which has given $50,000 to Proulx's campaign. Adler shelled out $4.3 million to settle a 1993 shareholder class acti

BATTLE-READY: *Proulx has three proposals for voters*

SILICON VALLEY'S CRUSADE

High-tech companies donating big bucks for a California ballot initiative on tort reform

CONTRIBUTOR	AMOUNT GIVEN
SYMANTEC Microcomputer software developer	$200,000
INTEGRATED DEVICE TECHNOLOGY* Manufactures semiconductor products	$100,000
TOM PROULX* Retired co-founder, Intuit	$100,000
INTEL Includes gift from Chairman Gordon Moore	$350,000
ADAPTEC Makes input/output components	$50,000

*Contributor not named as a defendant in one or more securities class actions

DATA: ALLIANCE TO REVITALIZE CALIFORNIA, SECURITIES CLASS ACTION ALERT

Politicians hope Silicon Valley's fie stance on tort reform marks the start its political awakening. There's a lot potential fund-raising there, for o thing. Until now, the Valley has kep low profile. T.J. Rodgers, CEO of S Jose-based Cypress Semiconductor, ures, "we're involved in creating wea and . . . we don't have time to scr around with congressional junkets." F for legal reform, an unprecedented nu ber of Valley CEOs have found time testify before Congress.

NO-FAULT INSURANCE. The tort refo Rodgers and Proulx want Californi to pass would certainly deter pes suits. It would require los parties in securities class tions to pay the winning par legal expenses. And they wo have to post a bond la enough to cover likely legal penses—often in the millions dollars. Congress is closer t ever to passing legislation t would make such suits har to file in federal court. F Proulx's group, the Alliance Revitalize California, based Santa Monica, wants to m sure plaintiff lawyers can't around federal laws by sim filing their claims in state co

The alliance has two ot items headed for the bal One is a simple no-fault a insurance initiative to elimin lawsuits over auto-accident juries and reduce premiu The other caps lawyers fee a suit is quickly settled. N ther of these holds as much urge for the high-tech world, but the ins ance issue is a winner with Californi who pay among the highest rates in country. The class-action provision co get a nice ride on its coattails.

Proulx has a tough fight ahead. C sumer activists and the powerful C fornia trial lawyers' lobby object to three proposals. The lawyers are fin ing a competing proposition that wo set less extreme rules on lawsuits. T also managed to get 200,000 of the liance's signatures disqualified. Will S. Lerach, a plaintiff lawyer and lea alliance foe, dismisses Silicon Vall complaints as "anecdotal whining overpaid corporate fat cats." Proulx, once cloistered engineer, cringes at s barbs. "Silicon Valley in general dains politics," he says. But the c puter expert turned Valley crusade beginning to relish the fight.

By Nanette Byrnes in Atherton, C

SPLAYS

THE GRAND ALLIANCE N FLAT PANELS

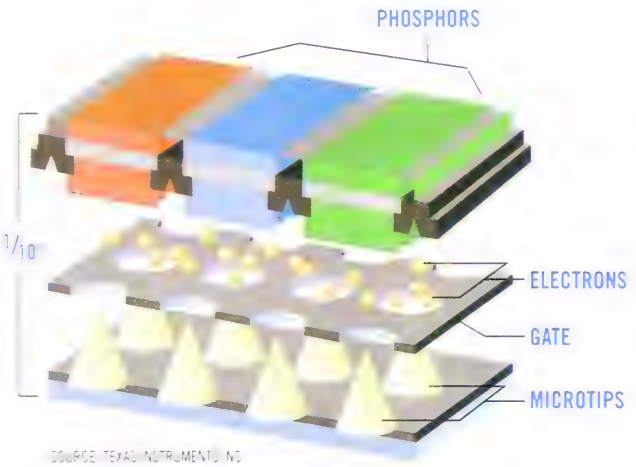
w thin-screen technology could be a breakthrough

rench entrepreneur Jean-Luc Grand-Clément was dazzled by what he discovered in October, 1991, during a technology-scout-visit to a laboratory in Grenoble. I, a state-run research institute at base of the Alps, had a sure trove of patents cover- the raw science for an al- ıative to liquid-crystal dis- s (LCDs)—those ubiquitous ens on notebook comput- camcorders, and watches. ndeed, LETI's new technolo- had the potential to leap- Japanese LCDs. Grand-Clé- ıt quickly bought an usive license to all 16 pat- s, mapped out a business , and found investors will- to take on Japanese goli- such as Sharp, NEC, and ıiba in the $11.5 billion flat- el-display market.

ED UP. Today, Grand-Clé- t's fledgling company, Pix- ı, based in Rousset, France, roducing six-inch-diagonal otype screens that require power than LCDs, look p from any angle, and are one-tenth of an inch thick—two- hs, including the electronics—about an LCD's thickness. Unlike the costly ve-matrix LCDs used for notebooks, ch take three transistors to activate ı picture element, or pixel, PixTech's l-emission displays (FEDs) don't use transistors on their pixels. A simple e grid supplies electric voltages that se millions of "microtips" to fire, turning pixels on and off (diagram). Manufacturing takes half as many steps, so production costs ought to be one-third lower than for LCDs. That should appeal to PC makers: Screens make up roughly 40% of a portable computer's cost.

INSIDE PIXTECH'S SCREENS

In PixTech's field-emission displays, electrons coming from millions of tiny microtips pass through gates and light up pixels on a screen



SOURCE: TEXAS INSTRUMENTS INC.

CEO Grand-Clément's most compelling achievement may be the unusual alliance he designed to launch FEDs. He created a flexible partnership with four big guns: Motorola, Texas Instruments, Raytheon, and Japan's Futuba—each of which was already pursuing the technology independently. All members pool their resources, while remaining competitors.

The partners aren't just dabbling. On Aug. 11, Motorola announced plans to spend upwards of $100 million on a display-division headquarters in Tempe, Ariz., that will house FED-related research and pilot production. Thomas D. Petrovich, Texas Instruments Inc.'s marketing manager for flat-display products, says his company was stung by Japan's takeover of the LCD market in the mid-1980s. "We're not going to let that happen again."

If it works, the alliance could become a model for others trying to bring risky and complex technologies quickly to market. PixTech acts as a clearinghouse and can sublicense one partner's display technology to all of the others. Working separately, says TI's Petrovich, progress would be slow, and "even the first guy would get to market too late." The cross-licenses expire after three years, so partners don't feel trapped. At first, members balked at sharing proprietary research. But Grand-Clément, a former Motorola engineer who has fathered three technology startups, argued that the alliance's combined financial and human resources—a total of 250 scientists and engineers—could act as a high bar for others to clear.

TINY SPIKES. Because the alliance members are so diverse, they should be able to attack multiple markets without always competing head-to-head. Motorola is interested in exploring the FED technology for notebook computers, games, dashboard displays, and cellular phones. TI will focus mainly on portable computers, while Raytheon is aiming at the defense instrumentation market.

Flat-panel displays make an attractive target. Market researcher Stanford Resources Inc. in San Jose, Calif., expects flat-panel sales will double, to $21.6 billion, by 2000. LCDs today dominate, with 87% of the flat-panel sector. But with its high quality and low cost, FED is "the hottest display technology

PixTech's Tough Rivals

faces other field- mission display ompanies–as well as ompeting technologies

LIQUID CRYSTAL Crystals either block light or let it shine through, depending on voltage. LCDs dominate the market. But they're expensive.

PLASMA These easy-to-make screens work on the same principle as fluorescent lights. They're the front-runner for big, wall-hanging TV screens.

ELECTROLUMINESCENT Phosphors are sandwiched inside a grid of wires. Advantages: Ruggedness and the ability to be viewed from any angle.

DIGITAL MIRROR DEVICES Texas Instruments' postage-stamp-size chip etched with 400,000 tiny mirrors could be used to project wall-size images.

ALBERTO MONAGAS

in the U.S. right now," says David Mentley, research director at Stanfo Resources.

The principle behind FEDs is simi to that of cathode-ray tubes in televis sets. The difference: Instead of just o "gun" spraying electrons against the side of the screen's face, there are many as 500 million of them, fashion by chipmaking techniques to take t form of tiny spikes on a plate. Gran Clément expects to reach the sa yields in one year that LCD manuf turers took four years to attain. U mately, he believes, FEDs will cost 3 less than LCDs. "We don't have any te nological hurdle today. There is no ing more to invent," he says.

"CRITICAL MASS." The main challen now is ramping up production. For t moment, PixTech, at its Montpell plant, is focused on making screens up to six inches aimed at industrial m kets such as medical instruments a defense, where margins are high a production volumes lower. But if t market takes off quickly, Grand-Cléme may try to raise more capital in 1996 ramp up large-scale production for inch screens in the U.S. Like LC FEDs may not be suited for TV-s screens because the thin glass she are hard to handle. Another challen Keeping the microtips from oxidizi and losing effectiveness.

PixTech is up against Japanese ants that are spending billions of doll to improve LCD technology—and quie investing in their own FED research. the U.S., where FED technology ori nated in the 1960s at Stanford Univ sity, at least 10 companies are devel ing field-emission displays, includi Houston-based SI Diamond Technolo Inc., which has acquired a large body Russian patents for diamond cathod Silicon Video Corp., based in Cuperti Calif., has backing for its $90 milli research and development effort fr Hewlett-Packard, Compaq, and othe And Micron Technology Inc., based Boise, Idaho, has shown an FED camc der viewfinder.

Each approach has advantages, b only PixTech has consistently dem strated bright, defect-free displays, s display expert Henry F. Gray of t Naval Research Laboratory in Wa ington. All the competition may actua be a good sign: "Historically, nothi ever happens until there's a critical m of companies," says Stanford Resourc Mentley. For now, the rivalry is j what PixTech needs.

By Gail Edmondson in Montpell France, with Neil Gross in New Yo

Countless business-to-business media decisions were made last year. This is for those who made the best.

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TED BY PETER COY

IVING A JOLT TO A SINGLE NERVE CELL

RTIFICIAL LIMBS THAT spond just as natural es do are still the stuff of ience fiction, but scien- sts at the Max-Planck In- itute of Biochemistry in unich have moved one ep closer to the integra- on of electronics and biol- gy. To avoid damage used by directly stimulat- ing nerve cells with electric current, Peter Fromherz and his colleagues have developed a silicon device that uses a simple re- arrangement of electric charge to make a single nerve cell fire. The cell is placed against a tiny "stim- ulation spot" on the device. When a small voltage pulse is applied to the device, the stimulation spot induces a positive charge in the nerve cell, causing it to fire.

Fromherz's team is work- ing on a bidirectional sys- tem that can receive signals from neurons as well as stimulate them. They're also trying to build systems with thousands of stimula- tion spots to interact with whole networks of neurons.

INNOVATIONS

■ When an underground power line fails, finding the break can be tougher than actually fixing it. So research- ers at Rensselaer Polytechnic Institute in Troy, N. Y., trained a "neural network" program to track down breaks, using data from Con- solidated Edison Co. of New York. The software quickly learned to pinpoint which manhole a repair crew should head for.

■ Will tomorrow's teenagers be pimple-free? William F. Wood, a chemist at Hum- boldt State University in Ar- cata, Calif., has discovered that glands in the split of deer hooves produce a potent antimicrobial agent. The substance not only pro- tects deer—it's highly effec- tive against the bacteria that cause facial acne.

■ The high temperatures used in manufacturing can annihilate ordinary thermom- eters. But Thermosonics Inc. in Tucson, Ariz., has devel- oped a device that measures temperatures as high as 3,000C with a sound wave that is transmitted down a rod made of various metals or ceramics.

Since the speed of sound varies with the rod's temper- ature, a microprocessor can calculate that temperature by measuring in nanoseconds how long it takes the sound wave to return.

THE WORLD RNS, EE ENERGY?

GINE THE EARTH AS A petual-motion machine—a t flywheel that rotates essly. Now, picture being to tap into that enor- s energy.

hat's what a handful of red engineers and physi- s in San Diego have done. ir company, NuEnergy ociates, has produced and ented a so-called Gyro- er machine that's basical- gyroscope connected to a erator. As the earth turns, gyroscope's spinning rotor bles as it resists changing ction. The resulting que is converted by gears the spinning shaft of a erator.

ays NuEnergy Managing ector Rodger C. Finvold, 5-year-old former Navy

physicist and one of the de- vice's inventors: "It's theoret- ically possible to generate all of the electrical power needed in the world with this meth- od. And if you did so, it would only slow the Earth's rotation by one second over 10,000 years."

One small problem: The working model, which has a rotor only two inches in di- ameter, actually consumes more energy than it produc- es. NuEnergy is seeking $2 million for a three-year project to scale up to a gyro- scope with a four-foot-wide rotor, which Finvold says would reach the energy break-even point. One chal- lenge is building a large ro- tor that won't fall apart at high speeds. Another is find- ing efficient gearboxes to translate the once-a-day wob- ble rotation of the gyroscope into the high rotational speeds a generator requires. The required gear ratio is about 1 million to 1.

Finvold admits that it has been a slog. "We've gone to the government, but their ex- perts say we've violated all of the laws of conservation of energy. We don't think we have, and we've got the de- vice to prove it." He says they are sending skeptics vid- eotapes of their creation in action. "Once you see it actu- ally working," says Finvold, "it makes sense."

VHAT'S A CUCUMBER'S FAVORITE COLOR?

HAT? YOU'RE STILL USING at old black mulch on your arden? Sure, covering the round around plants with eets of black plastic holds own weeds while control- ng soil temperature and oisture. But Michael Orzo- k, a Pennsylvania State niversity professor of veg- able crops, says colored ulches do that and more, producing a 10% to 25% rise in yield for certain crops.

"Yellow mulch produces the best pepper yields. Squash responds well to red or blue, while tomatoes grow better with red," says Orzolek. Silver mulch repels aphids, and yellow draws cucumber beetles together, so they can be easily zapped with pesticide.

(TOP TO BOTTOM) ILLUSTRATION BY JULIA GORTON; PHOTOGRAPH BY STACIE BIRD

EMPIRE BUILDERS

THE STIFF WIND BEHIND PAT RYAN

The chief of Aon insurance took over from the legendary W. Clement Stone–and took of

Patrick G. Ryan thought it was in the bag. By mid-morning on Aug. 26, 1982, shareholders of his little-known Chicago insurance company had rubber-stamped the plan to merge with powerhouse Combined International Corp. Ryan would get 13% and be CEO of the new outfit. He would replace a man who had created a vast retail brokerage and used it as a springboard to fame as a philanthropist and friend to Presidents—80-year-old W. Clement Stone.

IN THE PINK: *Ryan takes a different tack on Wisconsin's Lake Geneva*

But across town, at Combined's meeting, shareholders got a surprise. They had just O.K.'d the deal with Ryan when the mercurial Stone grabbed a microphone and announced he had changed his mind. "There isn't a Pat Ryan or anyone else" prepared to run all of Combined, the flamboyant advocate of "positive mental attitude" declared. Maybe Stone should run the company in "perpetuity," he suggested. Combined's directors hastily adjourned the meeting. For four hours, they hashed it out behind closed doors. When shareholders reconvened that afternoon, a composed Stone gave his blessing, as Ryan stood by.

IN SYNC. It sounded like a recipe for disaster. But Ryan won the trust of Stone, who remained chairman, by continuing to work with him to revive a local Boys Club. To engineer the changes he knew were needed, Ryan packed the board with outsiders. Only after he had settled into the job did he spring his cost-cutting regimen. By then, Ryan and Stone were in sync. The older man introduced his successor as "our great, great CEO."

And no wonder: Combined, later renamed Aon Corp., has returned an average 14.7% annually for 10 years. From operating income of $100 million on revenues of $821 million in the last year under Stone, Aon's income hit $356 million on revenues of $4.2 billion in 1994. Where Stone created a cult of personality, Ryan has built a broad management team. And where Stone established niches in cut-rate life, accident, and health coverage, Ryan has built a giant in corporate insurance brokerage and consulting. Aon's brokerage arm is No. 2, behind leader Marsh & McLennan Cos.—and Ryan isn't done yet. He plans more of the acquisitions that have helped up the value of his stake to more than $500 million: "We don't have the market share we want," he says.

The patient groundwork that characterized his first months at the helm of his merged company was typical of Ryan. He still chuckles about losing his first-ever full-time job on the first day: He was lowering lumber on a rope to his leagues on a sewer crew when his k gave way, dumping the load on th heads. Ryan trudged home to the bing of his brother and five sisters— learned a lesson about the importanc careful preparation and proper trainin

At 26, he began putting that lesson good use. Having worked a summer his father's Ford lot, he knew that in rance sales at car dealerships were h hazard and unprofessional. Ryan set offices in showrooms, where his w dressed agents became known "Ryan's altar boys." Copycat riv couldn't match the thorough train and juicy incentives his agents got.

Aggressive networking also help Using fraternity friends, he wangle contract to sell policies for CNA In rance Cos. Ryan also threw himself t charity fund-raisers, and he gained trée to power-broker havens. It was contacts he made at one such ha the Economic Club of Chicago, ta paved the way for his first big acqui tion, the insurance units of Esmark in 1976. By 1982, he was a respecte

ɔusiness figure, and Combined di-
ɔrs Peer Pedersen and Perry J.
is approached him with the mer-
deal after they became worried
t the company's future. Ryan drove
rd bargain: He would sign on only if
ɔecame CEO right away. No prob-
"He had an enormous amount of
gy—very youthful and ambitious,"
Pedersen.

ıe deal put a ton of cash in Ryan's
et, including annual dividend checks
now approach $18 million. That has
ved him to step up a commitment
ıarity—one that runs in the family.
eldest of his three sons has formed
ınner-city teaching corps, and Ryan

RYAN'S RISE

rn in Milwaukee suburb of Wauwatosa, where he at-
rochial school and serves as an altar boy

ters Northwestern University on football scholarship

rms his own company at age 26, selling credit in-
through car dealerships

ıys financial subsidiaries of Esmark, his first entry
rance brokering

ɜrges with Combined International and replaces W.
Stone as CEO. Cuts 12% of Combined's staff and
Rollins Burdick Hunter, the No. 7 insurance broker

ys $200 million for Hudig Langeveldt, Europe's
ısurance broker—his most important deal, he says

quires Frank B. Hall for $475 million from Saul
g's Reliance Group Holdings. His quick turnaround
ds critics who thought he had bitten off too much

DATA BUSINESS WEEK

s a foundation inspired by a younger
with cerebral palsy. He's a political
er, too. He has donated to candi-
s as diverse as Senator Phil Gramm
Tex.) and Representative Mel Rey-
s (D-Ill.)—before Reynolds became
roiled in a sex scandal. A linebacker
attended Northwestern University
football scholarship, Ryan also owns
ınority stake in the Chicago Bears.

Y DEAL Those interests have hardly
racted him from business, though.
e taking over Combined 13 years
Ryan has used its strong cash flow
balance sheet to fund 10 major acqui-
ıs. The most important, says Director
ɜrsen, was insurance broker Rollins
lick Hunter Co. in 1982. That set
on its path in the brokerage busi-
, where Ryan saw stronger growth
more of an opportunity to build a
ence than in consumer insurance. A
ɔr push overseas came in 1991, when
acquired Europe's largest insurance
er, Hudig Langeveldt. At a stroke,
ı got a strong network in Britain
across the Continent.

ıe next year, Ryan made what seemed like his diciest deal when he bought Frank B. Hall & Co., the No. 4 broker. After all, Hall's parent, Saul P. Steinberg's Reliance Group Holdings Inc., had broken its pick on the troubled firm for nearly a decade. Ryan integrated Hall quickly, cutting $75 million from costs by eliminating overlap. The deal expanded Aon's reach in the U.S., Europe, and Asia. Besides cutting costs, Ryan got rid of poor managers and worked to keep skilled ones. In a business where client relationships often hinge on a few key employees, he makes liberal use of restricted shares and stock options to reward insiders, who own 30% of Aon stock.

Ryan and Aon may yet stumble: The insurance brokerage could find margins squeezed, as insurers and corporate customers cut fees and commissions to middlemen, analysts say. And Ryan's aggressive cost-cutting could undermine the long-term health of his people-intensive businesses. "The problems don't always show up the first day," warns David Schiff of *Emerson, Reid's Insurance Observer*, an industry newsletter.

An even knottier problem: Wall Street gives Aon a lower price-earnings ratio than "pure" insurance-brokerage plays. Some believe that Ryan should sell the low-growth retail insurance properties he inherited from Stone, who stepped down in 1990. "There isn't much synergy. The market isn't going to pay them" a premium, says Duff & Phelps Corp. analyst Adam Klauber. Analysts also split on whether Aon will ever be No. 1 in brokering: While Klauber predicts that it will never catch up with Marsh & McLennan, Morgan Stanley & Co. and others expect the acquisitive Aon to lead by 2000.

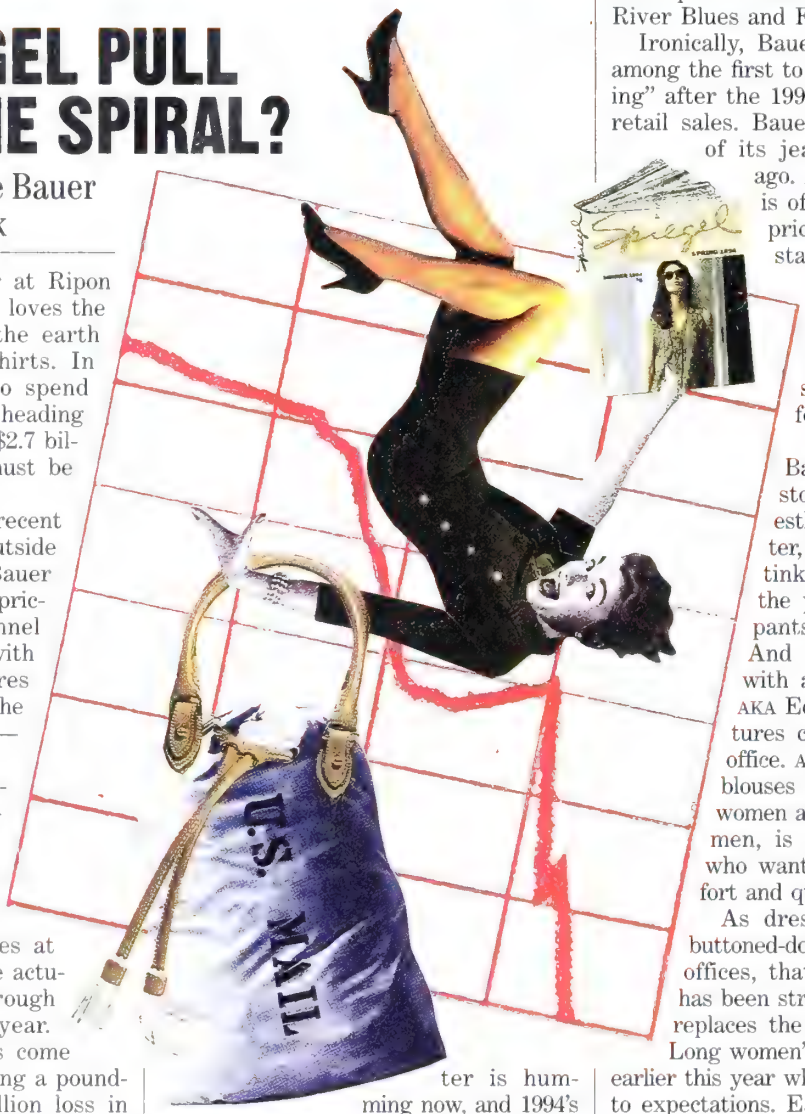
The 58-year-old Ryan plans to stick around well past then. Quadruple-bypass surgery last year barely fazed him. And he has plenty of work to do. Ryan is committed to expanding in an era of consolidation that could leave just a handful of key players. Reminded of a remark he made eight years ago about stepping down at age 60, Ryan says that his horizons have since changed. Stone's comment about "perpetuity" is sounding better to him every day.

By Greg Burns in Chicago

RETAILING

CAN SPIEGEL PULL OUT OF THE SPIRAL?

Its catalog and Eddie Bauer sales have been weak



Andrew Ball, a junior at Ripon College in Wisconsin, loves the Eddie Bauer look: the earth tones, the flannel shirts. In fact, Ball was planning to spend $300 on such gear before heading back to school. Bauer and $2.7 billion parent Spiegel Inc. must be raking it in.

Sorry, Spiegel. On his recent expedition to a big mall outside Chicago, Ball looked at Bauer but bought at Gap, where prices are lower and the flannel styles are hipper. Along with Gap Inc., department stores and discounters are doing the Eddie Bauer look better—and cheaper.

Bauer took a hit last winter, too. Down jackets languished on the shelves during warm spells, forcing the chain to slash prices and liquidate huge amounts of inventory. Sales at stores open a year or more actually fell for six months through the first quarter of this year. Since almost half its sales come from Bauer, Spiegel is taking a pounding: It posted a $24.3 million loss in the first half. That's a big change from 1994, when Spiegel's sales were up 23.5% and profits jumped 88% in the first six months.

CHEAPER IMITATIONS. The 374-store Bauer chain isn't the only problem. The flagship Spiegel catalog, which accounts for 45% of sales, is flat. A one-two punch of higher paper and postal costs also pummeled Spiegel's other catalogs, including Bauer and Newport News. A new high-tech distribution center in Columbus, Ohio, that was supposed to be phased in by February didn't help matters: Glitches forced Spiegel to run it in tandem with an old warehouse, causing big cost overruns. Spiegel's stock is down 30%, to around $13 a share from last August's 52-week high of $19.75.

Some of Spiegel's problems were clearly temporary. The distribution center is humming now, and 1994's balmy winter was a freak. "Those two hits are behind us now. We've got no excuses this fall," says CEO John J. Shea, who took the helm at the Downers Grove (Ill.) company in 1981, just before it was acquired by Otto-Versand, the giant German cataloger. Otto-Versand sold Spiegel shares to the public in 1987.

But retailing experts say the company faces some real, long-term problems. While Bauer wasn't looking, a host of competitors swooped in and copied its outdoorsy look at lower prices. J. C. Penney Co.'s Arizona brand of denim clothing, introduced in 1990, has soared to sales of $600 million a year. Sears, Roebuck & Co. is rolling out its ow lower-priced casual wear lines, Canyo River Blues and Fieldmaster, this fal

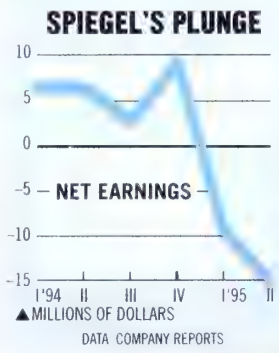
Ironically, Bauer and Spiegel wer among the first to embrace "value pri ing" after the 1991 recession wallope retail sales. Bauer chopped the pric of its jeans 30% four yea ago. But yesterday's valu is often today's premiu price. Bauer jeans hav stayed at $30, althoug competitors hav found ways to g lower. Sears, fo one, sells its ne stone-washed jea for $21.

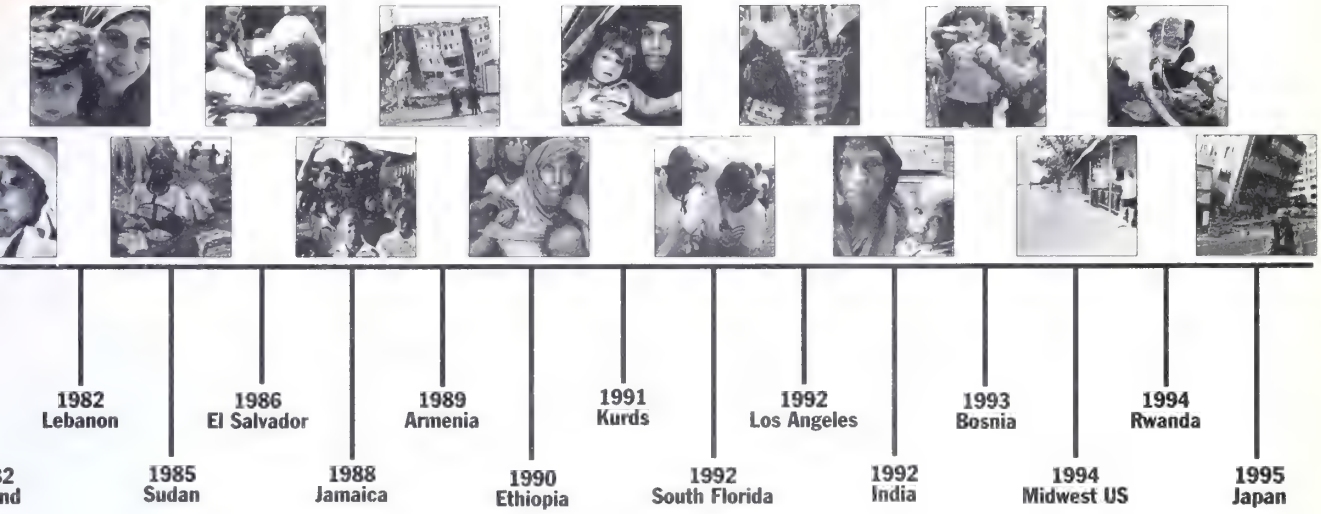
Shea points out th Bauer's sales in existin stores rebounded mo estly in the second qua ter, rising 3%. But he tinkering. Shea slashe the price of Bauer's tw pants to $30, from $4 And he's experimentin with a new store concep AKA Eddie Bauer, which fe tures casual clothes for th office. AKA, which carries si blouses and Italian shoes f women and ties and braces f men, is aimed at custome who want to take Bauer com fort and quality to work.

As dressing down replac buttoned-down in more and mo offices, that's a market Spieg has been struggling to enter: AK replaces the nine-store All We Long women's chain Spiegel folde earlier this year when it failed to live u to expectations. Early results for AKA 10 stores are encouraging, but it will a year before Spiegel even settles the final store format for a rollout.

Until then, Shea says he's looking cut costs—trimming a half-inch off th size of Spiegel's trademark "Big Boo and dropping marginally profitable cu tomers from mailin lists. Says Michael Ott CEO of Spiegel's parer "We are confident tha thanks to the steps ta en by Spiegel manag ment, the situation w clearly improve." Sti flannel shirts aren't warm and fuzzy as th used to be.

By Susan Chandl in Chicago with A Therese Palmer in Ve non Hills, Ill.





ome see a timeline. We see a lifeline.

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LANTHROPY

IVING—AND GETTING OMETHING BACK

re corporate donations are made with self-interest in mind

lifford V. Smith runs General Electric Co.'s nonprofit arm, but he still watches the bottom line. As presi- of the GE Fund, Smith must abide rigorous "return on investment" oline for divvying up donations. The is pumping $20 million into high ols in 14 cities to help supply GE a ready pool of talent. It gauges program's success by how many stu- s go to college and has hired Rand . to conduct an independent evalu- n. "When the business guys say, t are you doing with our profits?' I I'm investing them," Smith says.

ound more like business than philan- py? Well, it is. After years of loose e strings and little follow-up, compa- are getting tougher when it comes narity. They're putting a premium erformance and measuring how non- its use their dollars. And rather seeking just to do good, compa- are linking gifts to marketing cam- ns. Sports gear maker Nike Inc. is soring sports events at local Boys Girls clubs—and then showcasing in their national TV and print ads. new Conference Board report calls this new approach "strategic philanthropy" or "financially sound goodwill." The study surveyed 463 U. S. companies and found that companies taking a more businesslike approach to charity reported a better image, increased employee loyalty, and improved customer ties.

Companies say they simply can't afford to just give money away. Many slashed donations during the last recession and are still being tightfisted. Corporate donations, adjusted for inflation, declined by $1 billion from 1989 to 1994, says the American Association of Fund-Raising Counsel, a New York trade group. Some corporations are moving away from traditional grants almost entirely. Rather than give cash to help improve math and science education, Hewlett-Packard Co., for one, prefers donating its computer equipment to schools. HP not only gets to deduct its manufacturing costs, but it also builds goodwill and cements relationships with budding consumers.

Johnson & Johnson sees giving as a way to spur sales, too. It's spending $585,000 a year to send 40 chief nurses to a grueling, three-week, mini-MBA course at the University of Pennsylvania's Wharton School. As a condition of their participation, J&J requires the hospitals' top executives to attend the final three days and design a business plan for their institutions. Keeping hospitals healthy, says Curtis G. Weeden, J&J's vice-president for corporate contributions, is essential to future profits. Weeden also acknowledges that these nurses and executives play a key role in hospital buying decisions.

Other companies, too, are sticking with causes that further their businesses. Amoco Corp. used to give to everything from the arts to medical research. But in 1992, it decided to focus on education and community issues. The need for well-trained workers inspired Amoco to pick education, says Patricia Wright, the Amoco Foundation's executive director. And the oil giant has a large market share in the inner city.

CLOSE WATCH. One Amoco project is Fishers of Men, a new mentoring program that aims to help young men on Chicago's bleak West Side. Amoco was so eager for results that even before the plan was off the ground, it set aside $40,000 of its $250,000 grant for evaluation and hired a University of Illinois professor to oversee the program.

Such scrutiny is pressuring nonprofits to adapt—or lose funding. Dennis Walcott, president of the New York Urban League, almost lost $5,000 from American Express Co. when the company wouldn't buy a table at the group's annual dinner. Not enough to show for it, they said. So he got them to donate the sum to the league's Parent Resource Center, which helps parents negotiate New York's public schools. "You've got to be flexible," says Walcott. These days, even philanthropy is a buyers' market.

By Nelson Schwartz in New York, with Tim Smart in Fairfield, Conn.

Aiming at the Bottom Line

Companies are seeking a return on charitable contributions by:

- Limiting donations
- Funding specific programs rather than giving cash
- Donating equipment to potential customers
- Monitoring recipients' performance

DATA. BUSINESS WEEK

NORMAND COUSINEAU

EDITED BY AMY DUNKIN

USING YOUR PC TO PICK A MUTUAL FUND

SOFTWARE

Wait a minute, weren't mutual funds supposed to simplify investing? Yes, but that was before the pervasive spread of hidden and deferred fees, complex trading strategies that can create unanticipated tax consequences, and the explosion in the number of funds, to nearly 6,000.

Until now, investors who needed help cutting through the mutual-fund jungle could retain a broker or financial planner—a costly proposition—or hole up in a library poring through financial publications in search of the perfect fund. But there's a third option: Fire up your personal computer and take advantage of specialized software and online services that can help take the mystery and angst out of picking a fund.

Some programs let you "screen" through a broad universe of funds for those that meet your risk, return, and management-style needs. Others purport to alert you to the optimal time to buy or sell. And in the evolving world of online services, you can download a prospectus, pose questions to a fund manager, or exchange messages with other investors.

HANDS DOWN. If you can describe your ideal fund, a good screening program can help you find a close, if not perfect, match. Want a no-load domestic growth fund whose 10-year return exceeds the Standard & Poor's 500-stock index, but has management fees below 1% and was less volatile than the market during that period? Running this screen on Mutual Fund Expert, a program developed by Los Angeles-based Steele Systems, yields just one fund that passes this rigorous test: the Janus Fund.

Of the half-dozen screening programs on the market, Mutual Fund Expert is the hands-down winner. Expert carries more funds in its universe—6,600, including the different classes of funds—than rival programs, including Morningstar Inc.'s new Windows-based offering, Principia, which screens 6,250. Compared with Principia, Expert has stronger graphing capabilities, more ways to measure a fund's riskiness, and more indices by which to gauge performance. And at 3 megabytes, Expert requires just one-fifth the hard-drive space.

Principia will appeal to devotees of Morningstar's printed reports: The software includes almost all the same features, including the ability to sort funds by Morningstar's proprietary "Five Star" ranking system. It also lets users compare funds by concentration in 10 industry sectors, including technology and health care. Morningstar offers two DOS programs, including one devoted to closed-end funds.

While rich in content, both Principia and Morningstar's DOS-based program, Mutual Funds OnFloppy, suffer from flaws in the software design. Principia inexplicably doesn't allow the user to resize windows—meaning that at times the grid listing all of the funds couldn't be drawn back on screen. Mutual Fund OnDisc—the CD-ROM version of OnFloppy—wouldn't print to our office's network printer. And when our resident computer expert devised a temporary "patch," the program printed about 400 pages of indecipherable data.

TRADE-OFF. For budget-minded investors, the nonprofit American Association of Individual Investors' Quarterly Mutual Fund Update program is a cheaper option. On price alone—$50 for four quarterly updates (and just $39 for AAII members), vs. $100 for Principia or Expert—AAII's program is a bargain. The tradeoff: a clunky interface written in the FoxPro database progra

Two programs that aim educate are Quicken's Yo Mutual Fund Selector a Charles Schwab & Co FundMap. Both offer pri ers on fund investing as w as interactive questionnai that allow users to determi their risk tolerance, goa and projected financial nee Based on your answe FundMap will recomme an asset-allocation plan a even specific funds. But only provides data on a f dozen of the 350 fun Schwab offers through OneSource program, rend ing FundMap more of a m keting gimmick than a co prehensive planning to

Equally disappointing Quicken's mutual-fund p gram, an "electronic bo that aims to marry the r content of a book with t interactive calculations software. It falls short both counts. The text o scratches t surface of

Cutting through the Mutual-Fund Jungle

ME/PHONE	COMMENTS/PRICE/FORMAT
I'S QUARTERLY TUAL FUND UPDATE 2 280-0170	Screens 900 no-load and low-load funds. Good value, but clunky interface. $50/yr. for quarterly updates; DOS.
NDMAP 0 540-6765	Funds primer lets users estimate financial needs in retirement. Oddly, recommends only 21 funds from Schwab's vast OneSource program. $25; Windows.
VESTORS FASTTRACK 0 749-1348	Active user group on Prodigy online service provides nice complement to this timing program. One month trial: $100; $288/yr.; DOS.
NOCLE 0 251-3863	Easiest-to-use of timing programs. $149 plus $240/yr. for daily electronic updates; disk updates $80/yr. One-month trial: $11; Windows.
NAME/PHONE	**COMMENTS/PRICE/FORMAT**
MORNINGSTAR MUTUAL FUNDS ONFLOPPY 800 876-5005	Rich in detail: CD-ROM version shows every securities holding for each fund plus monthly returns. $95/yr. for quarterly disk updates or $495/yr. on CD-ROM; DOS.
MORNINGSTAR PRINCIPIA 800 876-5005	Includes much information from firm's printed reports. Screening program for 6,250 funds; $45 trial; Windows.
MUTUAL FUND EXPERT 800 237-8400	Best screening program; screens 6,600+ funds, including money-markets. $95/yr. for quarterly updates. $30 trial; Windows/DOS.
QUICKEN'S YOUR MUTUAL FUND SELECTOR 800 624-8742	Blends a weak primer, interactive worksheets,and pointless video clips. $30 plus $40/yr. for quarterly updates; CD-ROM.

DATA: BUSINESS WEEK

basics, and the video —such as a blackjack er asking questions to ge your stomach for —add no value. The pro- n provides a universe of 1,000 funds, and its ening capabilities are lim- Consider it for novice stors only.

he '80s bull market gave rise to many newsletters that advised followers when to switch in and out of funds based on technical indicators, such as a 39-week moving average. Now, several programs allow investors to follow popular indicators or even build their own, then back-test their performance over past years.

That begs the question: Should you use a timing program? Academic researchers have cast doubts on whether timing outperforms a buy-and-hold strategy. But many disciples of technical analysis—as much a religion as a cold science—swear by their individual success, particularly over the short run. And many technicians believe it works better with mutual funds that aren't as subject to an unpleasant surprise from a single stock that often can render even the best indicator meaningless.

NEW NUMBERS. Two technical programs offer affordable one-month trials: Investors FastTrack and Monocle. In both, users dial in via modem to an 800 number that transmits updated fund prices each night. Of the two, Monocle's Windows menus and icons make it far easier to use than FastTrack, which employs a quirky DOS interface. FastTrack may be worth a look because of its broad following. A busy user forum on the Prodigy online service is full of tips on the success of various indicators.

Investors surfing the Internet will find a growing number of resources devoted to mutual funds. The newsgroup misc.invest.funds provides a forum for lively discussion of fund topics. But the place worth watching is the World Wide Web, where there are dozens of sites devoted to funds. For a current list, point your Web browser to http://www.yahoo.com/.

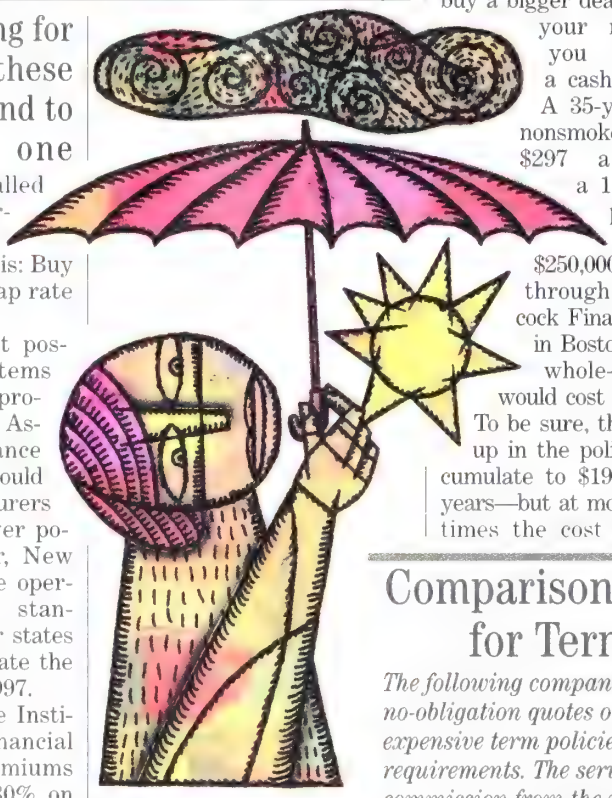
For now, a number are just advertising vehicles for fund companies. But a few show promise: The Fidelity site offers information on some 150 of its funds, including charts and an interactive questionnaire that tries to match your profile to the right Fidelity funds. Fidelity also provides simple calculators for estimating college and retirement expenses (http://www.fid-inv.com/).

One of the best Web resources may be the site http://networth.galt.com:80. Much of the data is supplied by participating funds, which now number more than 5,000. But it provides a wealth of information, with end-of-day net asset values, fund manager biographies, and a useful utility that lets you search funds by name or key words.

You also can download sample financial newsletters and complete fund prospectuses. Some managers pen market commentaries, giving you insight into their current thinking. When it comes to choosing a mutual fund, you now have more tools to decide for yourself. And who knows better how to find the fund that's right for you? *Dean Foust*

LIFE INSURANCE: A KEY TO LOCKING IN LOW RATES

If you're shopping for life insurance these days, you're bound to hear at least one pitch for a product called level-premium or guaranteed-rate term. It goes something like this: Buy now and lock in a cheap rate while you can.



All the hype about possible price hikes stems from new standards proposed by the National Association of Insurance Commissioners that would raise the reserves insurers must set aside to cover potential losses. So far, New York is the only state operating under tighter standards. But many other states are expected to mandate the higher reserves by 1997.

If that happens, the Institute of Certified Financial Planners says premiums could jump 15% to 30% on longer-term products—as they did in New York on some 15-year policies. "The window of opportunity won't last much longer," says Eugene Gordon, president of LifeQuote of America, one of several toll-free services that will quote you rates for a variety of life insurers—and can later sell you a policy (table).

FIRST STEP. With guaranteed-rate term insurance, the premium is fixed for a given number of years, often 5, 10, 15, or 20. Such policies, which only pay a death benefit and do not build up any cash value, are popular because they're relatively cheap. You also can time the policy to kick in, should you die, when your family or business partners would be most vulnerable from the loss of your income. For example, if you are worried that your family would not have enough money to send your daughter to college if you died at age 50, you might set up a 10-year term policy at age 40.

The first step before buying any life insurance product is to figure out how much money your beneficiaries would need. An adequate death benefit should cover at least five times annual income and a maximum of up to 10 times, depending on if your children are young and your spouse works, says David Diesslin, president of Diesslin & Associates, a Fort Worth (Tex.) financial planning firm. The objective is to meet immediate needs at your death, such as funeral expenses, and cover future bills without drastically reducing your family's lifestyle. Once you determine how much your family will require, you have to decide how much you can afford to spend.

Often, level-premium term is tempting because you can buy a bigger death benefit for your money than you could with a cash-value policy. A 35-year-old male nonsmoker would pay $297 a year for a 10-year level-premium policy with $250,000 in coverage, through John Hancock Financial Services in Boston. A $250,000 whole-life policy would cost $2,535 a year. To be sure, the cash build-up in the policy would accumulate to $19,673 after 10 years—but at more than eight times the cost of the term coverage. Going with the term insurance "is a cash-flow decision," says Rick Adkins, president of the Arkansas Financial Group, a financial-planning firm in Little Rock.

SMART MONEY

Fixed-rate term does have its drawbacks. Assume you buy a 10-year policy and don't die in 10 years. Renewal premiums can be extremely high—especially if you are no longer healthy and are subject to a reentry provision that requires you undergo a physical exa Continuing with the examp of the 35-year-old nonsmo er, John Hancock quotes a r newal rate of $567 a year age 45, as long as the m remains in good health. Ot erwise, the premium cou jump to $1,510 a year.

Some financial planne recommend using both a le el-rate term policy for fixed number of years a either a cash-value plan an annual renewable te policy, where the premiu increases each year but y are not required to pass a future medical tests. Th say, for instance, that y can pick up two-thir of your death benefit wi level-rate term and the re from other types of insu ance that will work well you as you grow older a your health begins decline.

RATING CHECK-UP. O er concerns with fixe rate term: If your cl lesterol level or blo pressure is high, you're overweight, o you have a family h tory of coronary dise or cancer by age you likely won't qual for the lowest pre ums. Even if you pass muster for the p ferred rates, you sho find out what the gu anteed premium is re ly worth. Before si ing up, check t insurer's financial hea by consulting the r ings of such services A. M. Best and Duff Phelps Credit Rating Also be aware that some year policies only guaran the premium for the first years.

If you're someone w needs death-benefit cover for an extended period time, a level-premium te policy can be the right d for you. With possible r hikes looming, however, y might want to consider p chasing it sooner rather th later.

Susan Tom

Comparison Shopping for Term Life

The following companies will send you no-obligation quotes on five of the least-expensive term policies that meet your requirements. The services receive a commission from the insurer if you buy through them.

INSURANCEQUOTE SERVICES
Chandler, Ariz. 800 972-1104

LIFEQUOTE
Miami 800 521-7873

SELECTQUOTE
San Francisco 800 343-1985

TERMQUOTE
Dayton, Ohio 800 444-8376

DATA BUSINESS WEEK

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FINE WINES FOR LESS THAN A TENSPOT

When he's lecturing on wine, Michael Green often begins with a blind taste test. Green places a $5 bottle of cabernet sauvignon in one brown bag and a $30 to $50 bottle in another. He then quizzes students to see which they prefer. "Half the people think that the $5 wine is the more expensive one. And a majority like the less expensive one," says Green, who also is a partner in Best Cellars, which hopes to open a store in New York City that carries only under-$10 bottles.

Connoisseurs may scoff, but the experiment suggests you don't have to take a second job to afford delicious wine. The market is flooded with "value" wines, fine-tasting varieties that sell for under $10 a bottle. Why the glut? For starters, an abundance of decent wine is available from long-overlooked or fast-improving regions around the world, whether in Chile, South Africa, or parts of France and California. Moreover, winemaking techniques have gotten better. "You can spend a happy life drinking and never spend more than $10" on a bottle, says Hugh Johnson, author of *The World Atlas of Wine* ($50, Simon & Schuster).

Besides price, inexpensive wines have other advantages. Great wines demand commitment. You need storage. There's the troubling decision of when to drink them. Is the wine at its peak? Do you need an ideal occasion to break open a bottle? On the other hand, you can sip low-cost wines immediately.

However, wine lovers give something up when they make pedestrian choices. Value wines usually are less complex in character than their glamorous cousins. "The flavors of great wines always last a long time in the mouth, with a lovely, sweet afterglow," says Johnson.

Indeed, it's a good idea to keep your expectations in check when you're searching for laudable but low-cost wines. Superb pinot noirs, for one, are hard to find for less than a tenspot—the finicky grape is expensive and difficult to grow.

Where then to point your nose? Bargains may be found in the Languedoc region in the south of France, says wine consultant Steven Olson. "The entire area has made incredible strides toward making better wines," he says. Many vineyards make respectable $5 to $8 merlots, chardonnays, even cabernets. Olson also recommends the tempranillo red wines from the Navarra and Ribera del Duero areas of Spain. You can find surprisingly dry wines from Germany and Austria. Among his best bets: the Koberner Weisenberg Riesling from Fr herr Von Schleinitz in M el, Germany, and the Wei burgunder pinot blanc fr Heinrich in Austria.

POTABLES

On my own recent wi buying mission, I picked u $6 bottle of Chilean Sant go "1541" Chardonnay Sherry-Lehmann, a big M hattan wine merchant, alas, the wine tasted chea had better l with a pleas Chateau Peyraud 1990 P mières Cote de Blaye ($7. from one of Bordeaux' less known vintners, as well as old standby, the aroma Beaujolais from Georges boeuf for $7.49.

But for those who f Beaujolais a bit too much "liquid Froot Loops," a b ter selection might be zinfandel, says Howard P gett, a wine consultant Beltramo's in Menlo Pa Calif. "You get a lot of f intensity to them, they generally soft, and they w well with a real range foods." A terrific value around $5.49 is Cuvée X fandel from Rosenbloom vintner's blend of differ appellations throughout C fornia. Or you might sam the Montevino 1993 Zinf del from the Gold Coun for around $5.

Online oenophiles can s advice on America Online CompuServe. Both servi have wine forums that o discuss $10 wines. Such p cations as *Wine Enthus* and *Wine Spectator* also value-wine issues. *Wine S tator* recently covered $10 bernets and chardonnays. magazine's favorites were $8 1992 Cabernet Sauvig Maipo Valley from Canep Chile, and a $7 1994 C donnay McLaren Vale f Seaview in Australia.

One of my favo low-priced wines also o nates Down Under. It the spicy, soft Rosemo Estate Shiraz, available $7 to $9. But don't rely my palate. At $10 a bo it's easy to take your risks. *Edward F*

Tips on Finding Value Wines

- Ask about undiscovered wineries or such fast-improving regions as Austria, Chile, or South Africa
- In a great vintage year, buy from lesser-known producers: Nearly everyone can make good wine from exceptional grapes
- When the vintage is off in an area, buy from an established winery that might lower prices and maintain quality
- Try large vineyards' secondary labels: The wine, sometimes made from excess grapes after an abundant harvest, may be similar in style to that found in the premium bottles

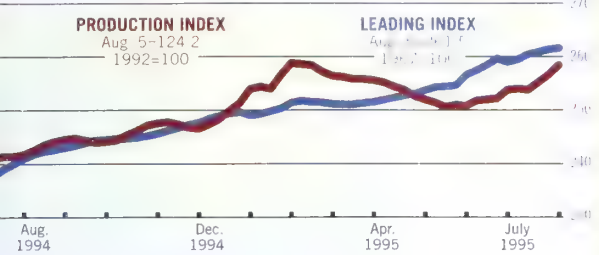
DATA: STEVEN OLSON, BUSINESS WEEK

usiness Week Index

ODUCTION AND LEADING INDEXES

hange from last week 0.7%
hange from last year: 4.1%

Change from last week 0.1%
Change from last year: 8.5%



dexes are 4-week moving averages

production index increased for the week ended Aug. 5. But before ulation of the four-week moving average, the index dropped to 125.1, 126.2. Seasonally adjusted output of autos, trucks, and electric power back in the latest week.

leading index rose slightly in the latest week. The unaveraged index was cally flat, at 261.6. Falling stock prices and slower growth in real estate s offset faster growth in M2 and materials prices.

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (8/12) thous. of net tons	1,922	1,906#	7.0
AUTOS (8/12) units	105,237	113,984r#	–11.7
TRUCKS (8/12) units	106,902	104,833r#	–10.6
ELECTRIC POWER (8/12) millions of kilowatt-hrs.	74,474	77,113#	10.6
CRUDE-OIL REFINING (8/12) thous. of bbl./day	14,236	14,460#	–1.1
COAL (8/5) thous. of net tons	18,505#	19,644r	–5.3
PAPERBOARD (8/5) thous. of tons	906.9#	907.8r	1.3
PAPER (8/5) thous. of tons	849.0#	856.0r	1.3
LUMBER (8/5) millions of ft.	435.1#	465.0	–9.7
RAIL FREIGHT (8/5) billions of ton-miles	23.6#	24.5	1.7

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Forest & Paper Association, WWPA[1], SFPA[2], Association of American Railroads

ADING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
CK PRICES (8/11) S&P 500	558.54	559.64	21.6
PORATE BOND YIELD, Aaa (8/11)	7.58%	7.57%	–6.7
USTRIAL MATERIALS PRICES (8/11)	114.0	113.7	NA*
SINESS FAILURES (8/4)	NA	NA	NA
L ESTATE LOANS (8/2) billions	$491.7	$491.1	12.0
NEY SUPPLY, M2 (7/31) billions	$3,684.1	$3,678.8r	2.7
TIAL CLAIMS, UNEMPLOYMENT (7/29) thous.	321	372	1.9

rces: Center for International Business Cycle Research (CIBCR), Standard & 's, Moody's, *Journal of Commerce* (index: 1990=100), Dun & Bradstreet (failures rge companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on ness failures and real estate loans. *Historical data available from CIBCR

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (8/16) $/troy oz.	382.000	384.400	1.3
STEEL SCRAP (8/15) #1 heavy, $/ton	146.50	142.50	8.9
COPPER (8/11) ¢/lb.	140.1	141.0	24.6
ALUMINUM (8/11) ¢/lb.	88.5	87.0	26.4
COTTON (8/11) strict low middling 1-1/16 in., ¢/lb.	81.68	83.43	14.9
OIL (8/15) $/bbl.	17.42	17.88	–3.8

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX

TEREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
ERAL FUNDS (8/15)	5.90%	5.70%	4.35%
MMERCIAL PAPER (8/16) 3-month	5.86	5.80	4.90
TIFICATES OF DEPOSIT (8/16) 3-month	5.80	5.75	4.86
ED MORTGAGE (8/11) 30-year	8.02	8.04	8.75
JUSTABLE MORTGAGE (8/11) one-year	5.91	5.90	5.57
ME (8/16)	8.75	8.75	7.39

rces: Federal Reserve, HSH Associates, Reuters Holdings PLC

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (8/16)	97.75	91.57	98.43
GERMAN MARK (8/16)	1.48	1.41	1.54
BRITISH POUND (8/16)	1.55	1.60	1.55
FRENCH FRANC (8/16)	5.06	4.87	5.29
ITALIAN LIRA (8/16)	1623.5	1588.1	1575.6
CANADIAN DOLLAR (8/16)	1.36	1.36	1.37
MEXICAN PESO (8/16)[3]	6.165	6.145	3.375

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars

w data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense pment. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

ERAL BUDGET

day, Aug. 21 ▶ The Treasury Dept. will ably report a deficit of $26.3 billion in according to the median forecast of omists surveyed by MMS International, of the McGraw-Hill Cos. Washington ed a deficit of $33.2 billion in July, 4. Faster increases in receipts are help- hold down the deficit. It should come in ound $165 billion for fiscal 1995, h ends in September, down from $203 on in fiscal 1994. Congress will wrestle the 1996 budget when it returns from ummer recess. Failure to pass a bud- or a veto by President Clinton, could e the federal government to shut down e autumn.

FOMC MEETING

Tuesday, Aug. 22 ▶ The Federal Open Market Committee, the policymaking arm of the Federal Reserve, will meet to set monetary policy for the next six weeks. In a special survey, MMS found that only one of 29 Fed-watchers expects a cut in interest rates. But nearly half of those surveyed forecast a rate cut by the September meeting. The Fed last made a move in interest rates on July 6, when it cut the federal funds rate from 6% to 5.75%.

DURABLE GOODS ORDERS

Thursday, Aug. 24, 8:30 a.m. ▶ New orders taken by durable-goods manufacturers likely increased by 1% in July, as demand for autos is expected to pick up. Overall, new orders fell 0.3% in June, but nondefense capital goods orders—aside from aircraft—jumped 2.6%. Unfilled orders were probably little changed in July, after slipping 0.5% in June.

EXISTING HOME SALES

Friday, Aug. 25, 8:45 a.m. ▶ Sales of existing houses probably fell back to an annual rate of about 3.5 million in July. Resales had risen strongly in the preceding two months, including a 6.5% surge in June, to a 3.78 million pace. The flattening-out of mortgage applications to purchase houses, however, suggests that home-buying activity is starting to wane.

Index to Companies

This index gives the starting page for a story with a significant reference to a company, plus a stock symbol. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A

Adaptec (ADPT) 72
Addison Wesley 12, 16
Alex. Brown & Sons (AB) 57
A.M. Best 84
American Express (AXP) 81
America Online (AMER) 18, 57, 86
Amoco (AN) 81
Amtrak 8
Aon (AOC) 78
Apple (AAPL) 18, 55, 58
Applied Network Technologies 62
Arkansas Financial Group 84
Ascend Communications (ASND) 62
AT&T (T) 52, 57, 64

B

Baan 56
Banca Serfin 42
Bank Hapoalim 69
Bank Leumi 69
Bay Networks (BNET) 62
Bear Stearns (BSC) 36, 58
Bell Atlantic (BEL) 36, 52
Beltramos Fine Wines & Spirits 86
Best Cellars 86
Bolt Beranek & Newman (BBN) 57
Boston Consulting Group 6
Broadway Stores (BWY) 38
Broderbund Software 56
Brooktree (BTRE) 60

C

Cabletron Systems (CS) 62
Capital Cities/ABC (CCB) 28, 30
Carella Byrne 6
Carter-Wallace (CAR) 6
Cascade (CSCC) 62
Case 33
Castle Rock Entertainment 28
CBS (CBS) 8, 28, 30
C-Cube Microsystems (CUBE) 60
Centillion Networks 62
Chancellor Broadcasting 30
Charles Schwab (SCH) 82
Chicago Bears 78
Chipcom (CHPM) 62
Chrysler (C) 12, 50
Cipsco (CIP) 36, 70
Cirrus Logic (CRUS) 60
Cisco Systems (CSCO) 52, 62
Citroen 50
Clear Channel Communications (CCU) 30
CNA Insurance 78
Coca-Cola (KO) 31, 70
Combinet 62
Commonwealth Aluminum 8
Compaq (CPQ) 31, 38, 52, 58, 60
CompUSA (CPU) 31
CompuServe 18, 57, 86
Computer Associates 56
Computer City 31
Connect 56
Consolidated Edison (ED) 77
Creative Artists Agency 28
CSC Index 12
CS First Boston 56, 70
Cypress Semiconductor (CY) 60, 72

D

Daihatsu 50
Daimler Benz (DAI) 33, 50
Daiwa Bank 69
Dataquest 31, 56
Dean Witter 38
Deevy Gilligan International 12
Dell Computer (DELL) 58
Diesslin & Associates 84
Digital Equipment (DEC) 38, 55
Disney (DIS) 6, 28, 30, 38, 89
Dow Chemical (DOW) 66
DreamWorks 38
Duff & Phelps (DUF) 78, 84

E

Eastman Kodak (EK) 31, 33
Eddie Bauer 80
Edmark 56
Electronic Data Systems 55
E.M. Warburg Pincus 16
Enserch (ENS) 66
Esmark 78
Evergreen Media (EVGM) 30
Exxon (XON) 36

F

Farrar Straus & Giroux 6
Federal Express (FDX) 56
Federated Department Stores (FD) 38
Fidelity Investments 38, 82
Fidelity Select Technology Fund (FSPTX) 52
First Call 58
Ford (F) 50
FORE Systems (FORE) 62
Fox Broadcasting (NWS) 28, 30
Frank B. Hall 78
Futuba 73

G

Gannett (GCO) 30
Gap (GPS) 80
GE Capital Services 42
Geffen Records 28
Gemini Consulting 16
General Electric (GE) 36, 38, 81
General Motors (GM) 50, 55
Giza 69
Grand Junction Networks 62
Granite (GVTBK) 30
Grupo Modelo 42
Grupo Sidek 42
GTE (GTE) 6, 36, 64
Guinness 17

H

Hasbro (HAS) 38
Hewlett-Packard (HWP) 33, 38, 55, 73, 81
Home Depot (HD) 6
Honda 50
Houston Industries (HOU) 70
Hudig Langeveldt 78
Hudson Foods 66
Hummer Winblad Venture Partners 56
Hyundai 50

I

IBM (IBM) 33, 52, 55, 56, 69
Imperial Tobacco 35
Infinity (INFTA) 30
Informix 56
Institutional Venture Partners 62
Insurancequote Services 84
Integrated Device Technology (IDTI) 60
Integrated Information Technology 60
Intel (INTC) 60
International Data 58
Intuit (INTU) 72
Inverned Associates 6
Isuzu 50

J

Jacor Communications (JCOR) 30
J.C. Penney (JCP) 38, 80
John Hancock 84
Johnson & Johnson (JNJ) 33, 81
J.P. Morgan (JPM) 32, 64

K

Kalpana 62
Kemper Securities 38
Kopp Investment Advisors 12

L

LCI (LCI) 16
Lee Enterprises (LEE) 30
Legent 56
Lehman Brothers (LEH) 32, 33, 55
Levesque Beaubien Geoffrion 35
Lifequote of America 84
Lotus Development 56
Louisiana-Pacific (LPX) 66
Luxor Hotel 31
Lynch & Mayer 52

M

Macy (R.H.) 38
Marsh & McLennan (MMC) 78
May Department Stores (MA) 38
Mazda 50
MCA 28
McCaw Cellular 64
McDonald & Co. Securities 38
McDonnell Douglas (MD) 66
McGraw-Hill (MHP) 16, 87
MCI (MCIC) 64
Mead Johnson 6
Mercedes-Benz (DAI) 12
Merck (MRK) 6
Meredith (MDP) 30
Merrill Lynch (MER) 64
Metropolitan Life Insurance 24, 38
MicroHelp 18
Micron Electronics (MU) 58
Micron Technology (MU) 60, 73
Microsoft (MSFT) 31, 38, 55, 56, 57, 58, 72, 89
Microunity Systems 60
Miramax Films 28
Mitsubishi Motors 50
MMC Sittipol 50
MMS International 87
Morgan Grenfell 17
Morgan Stanley (MS) 32, 50, 55, 56, 78
Morningstar 82
Motorola (MOT) 73

N

National City Bank 38
NEC 73
Netscape Communications (NSCP) 52, 56, 57, 90
New England Mutual Life Insurance 38
NexGen (NXGN) 60
NiceCom 62
Nike (NKE) 81
Nissan 50
Novadigm 56
NuEnergy Associates 77
NVIDIA 60
Nynex (NYN) 64

O

Omega Capital 70
Open Market 56
Operations Technology 12
Oracle (ORCL) 55, 56
Otto Versand 80
Outlet Communications 30

P

Pacific Telesis (PAC) 64
Packard Bell 38
PaineWebber (PWJ) 24, 31, 38, 64, 66
PECO Energy (PE) 36, 70
Pennsylvania Power & Light (PPL) 36, 70
PeopleSoft (PSFT) 56
Performance Systems International 57
Perkin-Elmer (PKN) 70
Perusahaan Otomobil 50
Peugeot 50
Philip Morris (MO) 34, 66
Pilgrim Baxter 52
PixTech 73
Prodigy 57, 82
Prudential Securities 55

Q

Quaker Oats (OAT) 70
Quantum (QNTM) 58

R

Rand 81
Raytheon (RTN) 73
Reliance Group (REL) 78
Renaissance Capital 57
Renaissance Communications 31
R.J. Reynolds Tobacco 34
RJR Nabisco (RN) 41, 66
Robertson Stephens 56, 60
Rollins Burdick Hunter 78

S

Salomon Brothers (SB) 32, 50
SBC Communications (SBC) 64
Seagate Technology (SEG) 58
Sears (S) 80
Selectquote 84
Seligman Communications & Information Fund (SLMCX) 52, 5
S.G. Warburg 16
Shamrock Broadcasting 30
Sharp 73
Sherry-Lehmann 86
SI Diamond Technology 73
Silicon Graphics (SGI) 60
Silicon Video 73
Smith Barney 38
Spider Technologies 56
Spiegel (SPGLA) 80
Sprint (FON) 64
Standard & Poor's 6
Stanford Resources 73
Steele Systems 82
S3 (SIII) 60
Stratacom (STRM) 62
Sun Microsystems (SUNW) 55
Swedish Motor 50
Synernetics 62

T

Techfarm 60
Termquote 84
Texas Instruments (TXN) 60, 73
The Learning Co. 56
Thermosonics 77
Tivoli Systems (TIVS) 56
Toshiba 73
Toyota 50
Toys 'R' Us (TOY) 38
Traveling Software 18
Tribune (TRB) 30
Tucker Anthony 38
Turner Broadcasting System (TBS.A) 28
Tyson Foods (TYSNA) 66

U

Union Electric (UEP) 36, 70
Unocal (UCL) 66
USAir (U) 38
U.S. Robotics 62
U.S. West (USW) 64
UUNet Technologies (UUNT) 57

V

Vermeer 56
Viacom (VIA.B) 28
Vina Star Motors 50
Vitro 42

W

Wal-Mart (WMT) 31
Warner Brothers 28
Western Digital (WDC) 58
Westinghouse (WX) 8, 28, 30
Wheat First Butcher Singer 34
Woodward & Lothrop/John Wanamaker 38
WorldCom 64
Worth 8

X

Xerox (XRX) 55
Xylan 62

Y

Yankee Group Research 62

Z

Ziff-Davis Publishing 31

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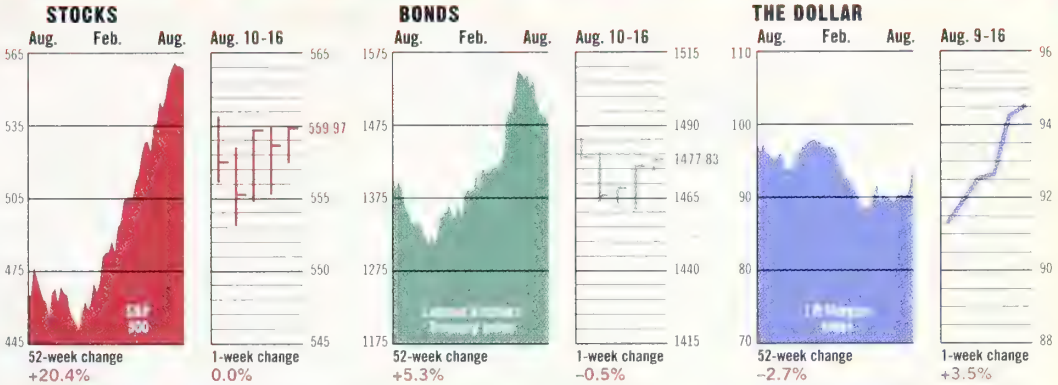
nvestment Figures of the Week

IENTARY

llar took center stage, rock- o a six-month high against n and the German mark. The ack lost some altitude, how- when an expected cut in Ger- oney market rates failed to alize. The stock market also bumpy ride, dipping on fears orporate profits were in for a en recovering as rallies in oft Corp. and Walt Disney Co. sparked a comeback. A surge stocks helped the NASDAQ a record high, but the broad- Jones industrial average is 00 points below its high.



RKET ANALYSIS

TOCKS	Latest	% change Week	52-week
ONES INDUSTRIALS	4639.1	-0.7	22.8
ZE COMPANIES (S&P MidCap Index)	209.3	1.5	19.9
COMPANIES (Russell 2000)	302.4	0.9	21.3
MPANIES (Russell 3000)	322.4	0.4	20.7

GN STOCKS	Latest	% change (local currency) Week	52-week
N (FINANCIAL TIMES 100)	3465.1	-0.1	8.6
(NIKKEI INDEX)	18,158.7	8.2	-12.8
TO (TSE COMPOSITE)	4608.4	-0.3	9.6

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	5.57%	5.53%	4.68%
30-YEAR TREASURY BOND YIELD	6.88%	6.92%	7.39%
S&P 500 DIVIDEND YIELD	2.39%	2.38%	2.73%
S&P 500 PRICE/EARNINGS RATIO	16.2	16.2	18.6

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day moving average	502.0	499.8	Positive
Stocks above 200-day moving average	74.0%	74.0%r	Negative
Speculative sentiment: Put/call ratio	0.62	0.55r	Neutral
Insider sentiment: Vickers sell/buy ratio	2.29	2.28	Neutral

BLOOMBERG FINANCIAL MARKETS

DUSTRY GROUPS

MONTH LEADERS	% change 1-month	12-month	Strongest stock in group	% change 1-month	12-month	Price
ALTH-CARE SERVICES	13.3	37.5	AMGEN	16.0	76.8	94 1/8
DADCASTING	11.8	29.8	CBS	21.3	28.5	79 5/8
'S	10.8	27.8	MATTEL	15.4	41.5	30
DICAL PRODUCTS AND SUPPLIES	9.4	56.4	ST. JUDE MEDICAL	17.2	90.8	59 5/8
BLISHING	8.4	6.4	MEREDITH	38.9	44.1	33 1/2

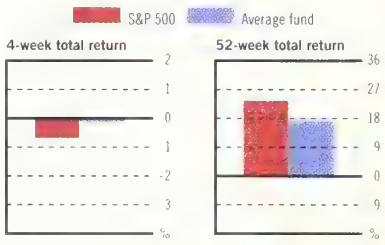
MONTH LAGGARDS	% change 1-month	12-month	Weakest stock in group	% change 1-month	12-month	Price
EL	-13.7	-21.3	NUCOR	-15.0	-25.1	49 5/8
LLUTION CONTROL	-10.4	4.5	BROWNING-FERRIS INDUSTRIES	-16.0	10.3	33 1/2
MEBUILDING	-10.2	4.3	KAUFMAN & BROAD HOME	-12.3	-10.8	13 3/8
TAL AND GLASS CONTAINERS	-10.0	24.4	CROWN CORK & SEAL	-11.1	23.6	43 1/4
AVY-DUTY TRUCKS	-8.6	8.6	NAVISTAR INTERNATIONAL	-21.2	-2.8	13

TUAL FUNDS

MORNINGSTAR INC.

ERS	
veek total return	%
ELITY SELECT MEDICAL DELIVERY	9.2
GIS RICE HALL JAMES SMALL CAP	7.9
DICAL RESEARCH INVESTMENT	7.8
ek total return	%
LIGMAN COMMUNICATIONS & INFORM. A	103.9
VETT SMALLER COMPANIES A	91.7
ELITY SELECT ELECTRONICS	91.0

LAGGARDS	
Four-week total return	%
STEADMAN AMERICAN INDUSTRY	-10.5
STEADMAN ASSOCIATED	-7.5
REMBRANDT ASIAN TIGERS INV.	-6.7
52-week total return	%
WRIGHT EQUIFUND-MEXICO	-44.8
BT INVESTMENT LATIN AMERICAN EQUITY	-30.8
MERRILL LYNCH LATIN AMERICA B	-29.8



LATIVE PORTFOLIOS

DRI/McGRAW-HILL

amounts represent the nt value of $10,000 ted one year ago ch portfolio

entages indicate ay total returns

U.S. stocks	Treasury bonds	Foreign stocks	Money market fund	Gold
$12,335	$11,527	$10,838	$10,531	$10,140
-0.32%	-1.23%	-2.01%	+0.13%	-0.16%

a on this page are as of market close Wednesday, Aug. 16, 1995, unless otherwise indicat- ustry groups include S&P 500 companies only; performance and share prices are as of market close Aug. 15. Mutual fund returns are as of Aug. 11. Relative portfolios are valued as of Aug. 15. A more detailed explanation of this page is available on request. r=revised NA=Not available

THERE'S VALUE UNDER THE HIGH-TECH SURGE

Speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation.—John Maynard Keynes, *The General Theory of Employment, Interest, and Money*

When Netscape Communications Corp., a tiny maker of software to navigate the Internet, went public on Aug. 9, it had no profits to its name yet racked up a market value of about $2 billion. Some investors thought they recognized the syndrome: It was a technology bubble, a late 20th century version of tulipmania. Just as the Dutch wildly bid up the prices of tulip bulbs—only to watch them crash later on—so investors snapped up technology stocks, and let the buyer beware.

Well, chips ain't tulips—or even biotech, the investor darling of the early 1980s that held so much promise and has so far delivered so little. What's going on is more akin to the railroad-building of the late 1800s and the automobile investment of the early 20th century. Yes, railroads went bankrupt and auto companies merged, but in the meantime, a new economy was built. Today companies are spending huge sums to build an infrastructure of computers, software, and telecommunications equipment—the foundation of the 21st century economy.

Along the way, fortunes will be made and lost. Stock prices will get out of whack with fundamentals. Companies will fail and products will vanish. But what's going on is real. Prices are signals, so technology stock prices are transmitting information to entrepreneurs and empire builders alike about where opportunities lie for technological innovation and economic wealth. Rising prices generate enthusiasm—sometimes too much of it. But it's only possible later, perhaps months or years later, to know for sure that giddiness about a particular stock was unwarranted. In the meantime, it pays to remember that there's a steady stream of enterprise, as Keynes might say, underlying the surge in technology stocks.

FOR THE DOLLAR, SANITY IS BACK

A refreshing wave of sanity appears to be washing over the currency markets. During the past few weeks, the dollar has revived vis-à-vis the Japanese yen and even rallied a bit against the German mark. Central bankers have—unusual for them—artfully coordinated their intervention in the markets. Now, it's time for some follow-through. Japanese and German monetary authorities ought to ease interest rates some more, and Japanese investors ought to take advantage of the Finance Ministry's recent relaxation of rules covering investments in foreign securities.

The dollar had been hammered as low as 81 yen to the dollar in April, in the wake of Mexico's financial meltdown and t supposed risks that entailed for the U. S. More recently, dol policy appeared to be playing handmaiden to trade policy U. S. officials seemed willing to let the dollar tumble so as gain a trade advantage against the Japanese.

Now, the dollar is buying nearly 100 yen again. This co put a dent in the earnings of U. S. corporations. Overse profits are automatically converted into more dollars wh the greenback is weak. A weak dollar also boosts U. S. expo But these are cheap thrills for U. S. manufacturers—compe tiveness and profitability should be won through productiv gains, not undervalued currency. By the same token, t supercharged yen had reached wrenching levels of strength Japanese manufacturers, and the yen was clearly overvalu

Fundamental trade and capital account imbalances betwe Japan and the U. S. remain daunting, so the dollar's longer-te prospects are clouded. But it's good to see cooler heads prev ing in the currency markets—and reassuring to know U. S. ficials are no longer pursuing a dollar-depreciation policy.

FULL DISCLOSURE ON THE HILL

Politicians have been busy reforming America, but th might do well to reform themselves, as the rank and file Ross Perot's recent conclave observed. And here's one pl they can start, albeit modestly: All lawmakers should be quired to make detailed disclosure of their financial holdi and transactions, specifying dollar amounts. Further, th lawmakers with oversight over certain industries by virtue committee seats should not have any financial interests those industries. That means someone serving on the Sen Energy & Natural Resources Committee, for instan shouldn't own stock in energy companies or own prope being developed for drilling.

Today, employees in the executive branch of government restricted in the investments they may make, so that t avoid conflicts of interest. Yet members of Congress are The most that is required of them is broad disclosure of t holdings—and that has hardly been a brake on their trading tivity. Based on an extensive BUSINESS WEEK review (page it's clear that many lawmakers or members of their fami routinely trade stocks in industries under congressional scr ny or about which they have special knowledge. The acti does not violate insider trading law or even congressio ethics standards, but it certainly raises serious questions.

Public servants, considering the fact that they are not p ticularly well remunerated, should not be penalized for tering public service. But they shouldn't expect to profit by knowledge they obtain in the halls of power. It's telling th couple of congressmen have voluntarily placed their inv ments in blind trusts or divested them. That may be too g a burden for some in Congress. But it seems reasonable to quire that financial disclosure be more detailed and to p some restrictions on investments.

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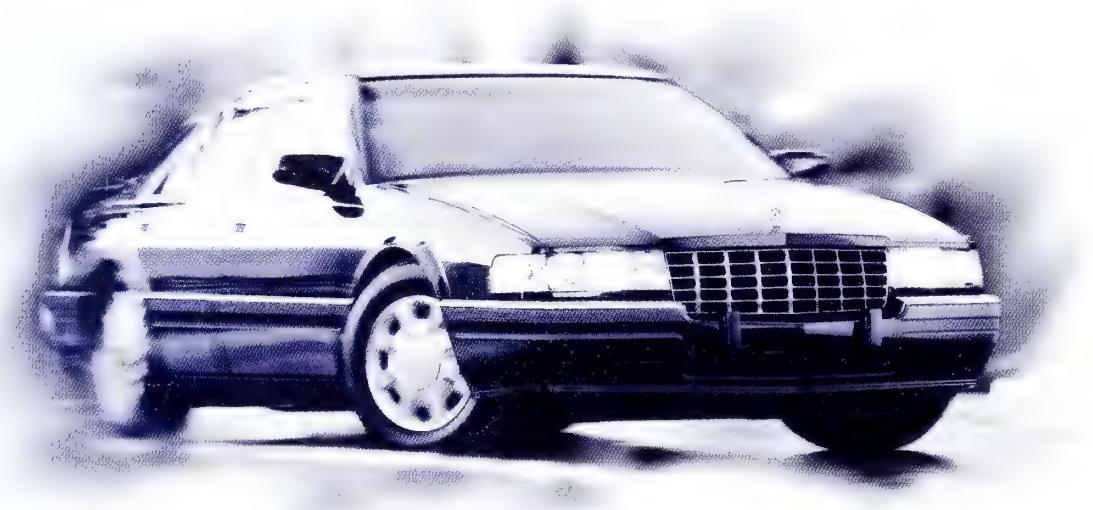

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